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# FINANCIAL TIMES

Europe's Business Newspaper

WEDNESDAY JUNE 16 1993

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## Eastman Kodak plans to spin off its chemicals unit

Eastman Kodak, the US photography products company, plans to spin off its Eastman chemicals business by the end of 1993 as a separate, publicly quoted company with some \$4bn in annual sales. The move follows shareholder pressure for Kodak to improve its financial performance. Page 16

### Clarke committed to UK growth

Kenneth Clarke, Britain's new chancellor of the exchequer, sought to define his economic policy by underlining his commitment to growth as well as to low inflation. In an anxiously awaited speech to the City of London, Mr Clarke said Britain could not rely on recovery alone to cut its £50bn (\$77bn) annual budget deficit, but would also have to act tough on public spending. Page 14 and Lex; Editorial Comment, Page 13

**Scuffles in Japanese parliament:** Fighting broke out in parliament as senior members of Japan's ruling Liberal Democratic party argued over the merits of reforming the political system. Page 14; Bankruptcy rates fall, Page 4

**Murdoch takes HK media stakes:** Rupert Murdoch's News Corporation is to pay HK\$1.85bn (\$240m) for a 22 per cent stake in Television Broadcasts, one of Hong Kong's two domestic television companies. Page 15

**US inflation slows:** US consumer prices rose 0.1 per cent last month and by 3.2 per cent in the year to May, providing further evidence that inflationary pressures are moderating. Page 6

**Saudi oil merger:** Saudi Arabia is to merge Samirco, its oil refining and marketing arm, with Saudi Aramco, its oil production company, to create the world's largest oil concern. Page 15

**Kravchuk seeks to bolster power:** Ukraine's president Leonid Kravchuk called for a referendum on the country's constitutional structure and early parliamentary elections. Page 3

**Rothschild Bank, Zurich affiliate of NM:** Rothschild of London, has made provisions of SFr270.9m (\$187m) against bad loans in the past two years, more than previously estimated. Page 15

**Timex to close Dundee plant:** Timex is to close its electronics plant in Dundee, Scotland, after unions rejected an offer to reinstate the sacked workforce on lower wages. Page 14

**National Semiconductor, US chipmaker:** which last year restructured its global operations, reported record sales and earnings for 1992-93, lifted by a strong fourth quarter. Page 17

**SPD backs telecoms self-off:** Germany's opposition Social Democrats will support the government's plan to privatise Deutsche Telekom, the state-owned telecoms monopoly. Page 2

**Call for scrapping of Nigeria poll:** The party running second in Nigeria's presidential election called for the results to be cancelled because of "rigging". Moshood Abiola, the business tycoon, appeared to heading for victory. Page 4

**Fokker launches regional jet:** Fokker, Dutch aircraft manufacturer 51 per cent owned by Deutsche Aerospace, began production of its 79-seat regional jet, having won \$400m worth of orders from Indonesia. Page 5

**Cambodia rebel takes refuge:** Prince Norodom Chakrapong, leader of a five-day-old Cambodian secessionist movement, took refuge in Vietnam. Page 4

**Malawi opposition claims victory:** Malawi opposition groups claimed victory in a referendum over the one-party rule of President Kamuzu Banda and demanded he be replaced by a coalition government of national unity. Page 4

**Recall of Brezhnev era leader:** Azerbaijan's Brezhnev era KGB and communist party chief, Heidar Aliyev, was elected chairman of the former Soviet republic's parliament. Page 3

**Aided may stand trial:** Somali warlord, General Mohammed Farah Aidid, will be brought to trial if an inquiry confirms allegations that he ordered the ambush that led to the death of 23 Pakistani peacekeepers, the UN said. Page 4

**James Hunt dies:** James Hunt, Britain's world formula one motor racing champion in 1976, died after a heart attack at his home in Wimbledon, south London. He was 45.

STOCK MARKET INDICES			
FT-SE 100	2870.0	(-15.9)	
Nickel	1491		
FT-SE Eurostoxx 100	1773.77	(-8.42)	
FT-AE Share	1418.1	(-0.4%)	
Nikkei	20,045.89	(-351.47)	
New York: S&P 500	3,508.85	(-6.54)	
Dow Jones Ind. Ave.	3,508.85	(-6.54)	
S&P Composite	447.87	(-0.24)	
US LUNCHTIME RATES			
Federal Funds	3.3%		
3-mo Treas. Bill: Yld	3.100%		
Long Bond	10.4%		
Yield	6.79%		
LONDON MONEY			
3-mo Interbank	5.5%	(same)	
Libor long gilt future	Jun 1993	105.61	
NORTH SEA OIL (Argus)			
Brent 15-day (Aug)	\$17.01	(17.945)	
GOLD			
New York Comex (Aug)	\$370.8	(368.6)	
London	\$365.75	(363.58)	

## Davignon attacks EC 'timidity' on unemployment

Industrialist calls for US-style labour flexibility to meet import competition

By Lionel Barber in Brussels

VISCOUNT Etienne Davignon, one of Europe's most powerful industrialists, has launched a scathing attack on EC political leaders. He accuses them of being too timid to deal with the unemployment crisis.

Mr Davignon said in an interview with the Financial Times that European industry should consider adopting American-style labour market flexibility to strengthen manufacturing against competition from Asia and the US.

Mr Jacques Delors, president of the European Commission, will make a personal presentation on the EC's failure to create new jobs at the EC summit in Copenhagen on Monday.

Mr Delors is said to be ready to tackle the sensitive issue of whether Europe's welfare state is indirectly contributing to low growth, but reluctant to disavow the Maastricht treaty's social chapter.

Mr Davignon, a senior member of the European Commission in the early 1980s and now chairman of Societe Generale de Belgique, the biggest holding company in Belgium, said he was worried about industry polarising along free-market and protectionist lines in the EC.

Instead, it was necessary to adopt a new approach to job creation, with more short-term working and flexible hiring and greater attention to fostering small businesses.

"This is a very tough message," he said, "but if you look at history in the US, the jobs and growth have not come from large companies like General Motors, IBM and Exxon."

Behind Mr Davignon's intervention lies a fear among Euro-

pean industrialists about political drift inside the EC and the risks of a social explosion caused by low growth, rising unemployment and a crisis of business confidence.

"You see it in our companies," he said. "If you want \$300m for lay-offs and restructuring, you get approval in 15 seconds. But if you go out and buy something, your share price goes down."

According to Mr Davignon, Europe's leaders, as well as the European Commission, have failed to respond properly to two historic shocks: German unification and the collapse of the Soviet empire. Instead, they have applied a philosophy of "business as usual".

He added: "It is a conspiracy of silence, but it is not deliberate. It is based on fear."

Since his days as industry commissioner in Brussels, when he helped to restructure the European steel industry, Mr Davignon has been an activist par excellence.

He argued that EC leaders'

approach to the collapse of communism was flawed and "totally lacking in imagination". By treating the former communist countries as market economies, the EC was allowing cheap imports to destroy jobs in the west.

Retaliatory measures such as anti-dumping duties were merely destroying jobs in the east and deterring foreign investment, he said. His tentative proposal was to negotiate quotas with fixed prices, so as not to disrupt western markets.

The EC's approval of aid to make nuclear reactors safe was dismissed as slow. Mr Davignon said, "One more Chernobyl and you can forget the nuclear industry in western Europe."

On Europe's exchange rate mechanism, Mr Davignon argues that the two official inquiries into last September's ERM crisis by the EC's monetary committee and the EC committee of central bank governors were a whitewash.

Mr Davignon is pressing the Commission to launch a campaign to argue the merits of a single European currency in terms of medium-term economic stability and the need to preserve the single European market.

Senior EC officials agree with Mr Davignon that political leaders need a new initiative to restore credibility to the ERM enterprise. A short-term step would be to agree on the site of the European Monetary Institute, the precursor of a European central bank.

## HJ Heinz cuts jobs worldwide in move to reduce costs

By Nikki Taft in New York

HJ HEINZ, the US food group, yesterday announced a range of cost-cutting moves, involving an 8 per cent reduction in its worldwide workforce of 35,500 and a cut in its UK operations.

The company will take a \$192m pre-tax charge against fourth-quarter earnings, to pay for the shake-up.

Heinz's chairman, Mr Tony O'Reilly, claimed the latest restructuring charge would help Heinz speed up productivity improvements, and concentrate a three-year rationalisation programme into 12 months. Analysts, however, saw the action as further evidence of the pressures which the intensely competitive retail sector is putting on the big consumer product companies.

"All the food companies are responding to the pressure by accelerating this sort of restructuring," commented Mr Les Pugh at Salomon Brothers in New York, noting that the anticipated operational efficiencies were not expected to bring much additional earnings growth.

Specific changes include: shifts in manufacturing capacity between Canada and the US; a reduction in operations in the United Kingdom, Italy, and in the Ore-Ida division; a cut of about 30 per cent, or 240 jobs, at a plant south of Melbourne, Australia; the consolidation of all the North American sales service functions in one Pittsburgh-based operation; and a merging of the US

## Conflicts emerge between Italian investigators

By Robert Graham in Rome

ITALIAN MAGISTRATES investigating corruption yesterday held a hastily convened summit in Rome to head off a squabble over conflicting responsibilities for inquiries.

The main conflicts have emerged between Milan and Rome magistrates, but magistrates from Bologna, Naples and Venice also attended the meeting. A later statement referred to "frank and loyal" discussions, hinting at some tough talking.

The magistrates were reported to be unable to reach agreement on responsibility for the three most important investigations in dispute. These cover dealings behind the parcelling out of television channels between the state and the private sector, telecommunications contracts and the operations of the Ministry of Posts. An appeal court will probably have to establish investigative responsibility.

There was only partial agreement on the probe into construction of the Rome metro.

Unless resolved quickly the disputes threaten to undermine the investigations as well as infringe the rights of those accused.

"These meetings are necessary, even if it would have been better to have held them earlier," said Mr Giorgio Castellucci, the Rome attorney-general.

As the 16-month-old investigation into corruption and illicit financing of political parties evolves, the cases are becoming increasingly intertwined. Normally magistrates establish competence over a case if they initiate the investigation and it then

remains largely within their geographic area. But the same names are cropping up in different places as the inquiries spread through Italy.

This has led to people being interrogated by different sets of magistrates or, in the case of Mr Giuseppe Ciarrapico, the Rome financier, of being released from custody in Rome to be summoned

to Milan the next day.

Milan magistrates - a more homogeneous group with better technological back-up and less subject to political pressure - have set the pace from the start.

Matters came to a head on Monday when Rome magistrates advised three senior politicians - including Mr Giorgio La Malfa, the former Republican leader - that they were under investigation for alleged corruption relating to telecommunications contracts and the award of television frequencies. Mr La Malfa claimed he had already received similar notices from Milan.

Rome magistrates also appeared to ignore a deal cut in April between the management of Fiat and Milan magistrates.

Mr Ugo Mootevecchi, former chief executive of Fiat Engineering, had already voluntarily appeared before Milan magistrates and been questioned for 10 hours. In spite of this Rome magistrates ordered his arrest on Monday for the alleged payment of bribes relating to culture ministry contracts.



A Bosnian Serb armoured car passes a destroyed mosque in a village near Gorazde, eastern Bosnia. Fighting continued in the area after radio appeals for intervention to save Gorazde from the Serbs

## Bosnia leaders meet

International mediators for former Yugoslavia today met leaders of Bosnia's warring factions in Geneva in the increasingly desperate search for political solutions to end the violence.

Lord Owen, for the European Community, and Mr Thorvald Stoltenberg, for the United Nations, said yesterday they expected the meetings to pave the way for a reconvened international conference on the former Yugoslavia which would assemble the participants in last August's London conference.

President Slobodan Milosevic of Serbia, Croatian President Franjo Tudjman, President Momir Bulatovic of Montenegro and Mr Alija Izetbegovic, the Bosnian president, will meet together with the mediators.

Lord Owen said yesterday it was clear there would have to be "adjustments" to the Vance-Owen peace plan. An overall halt to hostilities depends on an overall political bargain, he said.

Fresh effort to restart talks. Page 3

## S Africa talks in chaos as Inkatha walks out

By Patti Waldmeir in Johannesburg

SOUTH AFRICA'S constitutional negotiations were thrown into crisis last night after the mainly Zulu Inkatha Freedom party and its allies walked out of the talks.

The rightwing Conservative party and the governments of several conservative black homelands also walked out, leaving only the South African government and the African National Congress plus their allies, participating in the talks. Delegates said they would consult their principals over whether to withdraw permanently from the 26-party constitutional negotiating body.

ANC and government officials made clear that talks would proceed without the dissenting group, which calls itself the Concerned South Africans Group, but the legitimacy of a constitution written only by the ANC and government would be jeopardised.

Mr Cyril Ramaphosa, the ANC's chief delegate, accused the group of blackmail. "We regret the move to walk out of the negotiating chamber... they embarked on a very disruptive and unconstructive way of handling matters," he told a news conference.

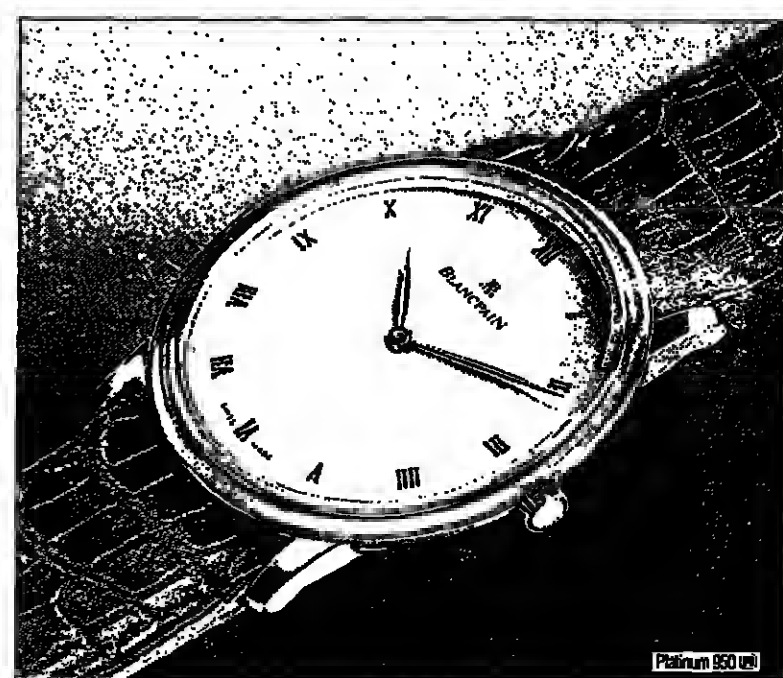
The move appeared to be an attempt by Chief Mangosuthu Buthelezi, the Inkatha leader, to test his strength within the negotiations, as well as to determine whether the government would back him or the ANC in a dispute. The government made clear it would risk isolating Chief Buthelezi and his allies rather than impede progress in negotiations.

Inkatha, which has significant support in Natal province, where a quarter of the population lives, could seriously disrupt any elections held under a new constitution.

ANC and government officials blamed Inkatha for deliberately stalling progress in the talks and seeking to prevent confirmation of April 27 1994 as the date for the first multiracial elections. They said efforts would be made

Continued on Page 14

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# FINANCIAL TIMES COMPANIES & MARKETS

Wednesday June 16 1993

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## INSIDE Analysts angry at Fondiaris rights issue

Insurance analysts have disapproved of Monday night's announcement of a £1,058bn (\$724.16m) rights issue by Fondiaris, Italy's third biggest private-sector insurer. The insurer reported 1992 group losses of £578bn. Page 16

### Sharper focus at FKI

FKI, the electrical engineering group, which has seen its share values almost triple in the last 18 months, yesterday confirmed it was making progress in improving profitability and restructuring the business. Pre-tax profits increased from £20.68m to £38.05m (\$58.2m) in the year to March 31 in spite of £5.4m of reorganisation costs. Page 22

### Reinsurers await bull run

The last time reinsurance rates rose significantly, the share prices of Munich Re and Swiss Re, the world's first and second biggest reinsurance companies, doubled relative to their local stockmarkets and tripled in absolute terms. With the reinsurance market in a similar state today, reinsurers could be embarking on a similar bull run. Back Page

### Italian borrowing back on track

Italy could be poised to issue one of the world's biggest global dollar bonds as borrowing gets back on track after political upsets and debt downgrades earlier this year. Page 20

### Nissan still feels the pain

Nissan caused a stir as the first Japanese car-maker since the second world war to announce a plant closure but the pain is not yet over. Mr Yoshitomi Tsuji, Nissan's president, said the restructuring plan did not take account of the blow to export earnings of the yen's steep rise, and Nissan's options now include price rises and another round of cost cutting. Page 18

### Flotation for Dairy Crest

Dairy Crest, the milk and dairy products arm of the UK's Milk Marketing Board, has confirmed its plan to float early next year. Dairy farmers could hold around 70 per cent of the share capital. Page 21

### Cap on gold price rises

A widening range of derivative products brought an estimated 86 tonnes of gold on to the market last year. Ms Jessica Jackson, an economist with RTZ, said that while this was not a huge amount, it was enough to cap any price rallies, especially in the short term. Page 25

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Johnson Fry	21	Wellman	24

### Chief price changes yesterday

FRANKFURT (DM)		
Alpine	413	+ 7
Archer (AJ)	105	+ 10.5
BCE	955	+ 13
BT	922.2	+ 5.8
Bradford Property	468	+ 7
CBS	310	+ 7
NEW YORK (\$)		
Alpine	3114	+ 3
Archer (AJ)	335	+ 14
BCE	359	+ 14
BT	329	+ 14
Bradford Property	29	+ 56
CBS	1554	+ 58
LONDON (Pence)		
Alpine	329	+ 12
Archer (AJ)	105	+ 7
BCE	78	+ 8
BT	161	+ 13
Bradford Property	114	+ 26
CBS	75	+ 7
Enso-Gutzeit	555	+ 28
Exxon	195	+ 13
F&C Smaller Cos	248	+ 12
FKI	34	+ 5
Fondland	405	+ 18
Ford	415	+ 24
Heinz	42	+ 4
High Gooch Park	734	+ 15
Johnson Fry	194	+ 14
Miramir Hotel	38	+ 3
Monarch Resources	105	+ 8
Mövenpick	213	+ 10

## Kodak to spin off its chemicals arm

By Martin Dickson in New York

EASTMAN Kodak, the US photographic products company, yesterday announced plans to spin off its Eastman chemicals business by the end of 1993 as a separate, publicly-quoted company with \$4bn in annual sales.

The move follows shareholder pressure for Kodak to improve its lacklustre financial performance, and comes a month after Mr Kay Whitmore, chairman, said the group would make a large asset divestiture this year.

He said yesterday that the spin-off was one element of a new

plan for Kodak which the company would unveil fully in September.

The spin-off will involve a pro-rata distribution to Kodak shareholders of stock in the independent business, which will be called Eastman Chemical Company and will seek a listing on the New York Stock Exchange. Kodak will retain no equity.

Eastman, founded in 1920 to supply chemicals to Kodak's photographic operations, has grown into the 10th largest US chemicals company, ranked by revenues, with sales to Kodak less than 8 per cent of the total.

It makes about 400 industrial and specialty products and has particularly strong positions in PET plastic bottle resins and filters for the tobacco industry. Earnings from operations last year totalled \$494m.

Wall Street analysts have long urged Kodak to dispose of Eastman, which accounts for approximately 20 per cent of group revenues, to allow Kodak to concentrate on its core photographic operations and other consumer-oriented businesses.

Mr Whitmore said the spin-off would create two stronger companies, with the management of

each concentrating more intently on its businesses.

Kodak shares, which rose on Monday in anticipation of yesterday's announcement, dipped 3% to \$53.4 at lunchtime in New York.

Spin-offs have become particularly popular over the past two years among restructuring US companies.

Mr Whitmore said Kodak had chosen the method rather than a sale to an industrial buyer because the chemicals cycle was in a down phase and this would allow Eastman shareholders to participate in any upturn.

The deal will remove \$2bn of debt from Kodak's balance sheet, but Mr Whitmore said this would not change the group's debt-to-capital ratio. Moody's, the credit rating agency, said it had placed Kodak's \$7bn of long-term debt under review for a possible upgrade.

Mr Whitmore said that the company was still reviewing its other, non-photographic businesses for possible operational changes, spin-offs, sales and closures.

It would say more about its strategy and growth prospects in September.

## News Corp pays HK\$1.85bn for 22 per cent of Hong Kong television company Murdoch enters Asian broadcasting

By Simon Holberton in Hong Kong

MR RUPERT Murdoch yesterday signalled his intention to become a force in Asian broadcasting with the announcement that his News Corporation is to pay HK\$1.85bn (£156m) for a 22 per cent interest in Television Broadcasts (TVB), one of Hong Kong's two domestic television companies and a leading producer of Chinese language movies.

News Corporation will acquire 11 per cent of TVB from each of the company's two controlling shareholders - Sir Run Run Shaw and Malaysian tycoon Mr Robert Kuok.

On completion of the deal, which needs Hong Kong government approval, Sir Run Run will have 23 per cent of TVB and Mr Kuok 21 per cent.

Mr Murdoch said the three-way partnership in TVB "will create the premier Asian company engaged in terrestrial and satellite television broadcasting". Sir Run Run said the addition of News Corp's expertise in international programming and satellite broadcasting to TVB's record of success in Chinese language programming "paves the way for the future growth and expansion of TVB".

Mr Murdoch, who sealed the deal on a visit to Hong Kong last week, has made no secret of his



Rupert Murdoch said the partnership "will create the premier Asian company engaged in terrestrial and satellite television broadcasting"

wish to participate in Asia's growing broadcasting industry, especially in China. Fox Television already sells US movies on the Chinese mainland and earlier

this year Mr Murdoch visited Beijing for talks with Chinese leaders. He has also expanded his print media interest in the region. Through the South China

Morning Post he has acquired a Chinese language newspaper in Hong Kong and a 16 per cent interest in the Bangkok Post, Thailand's leading English language daily. Underlining his ambition to publish on the Chinese mainland, he has also registered the masthead "North China Morning Post".

Over the past year Mr Murdoch has had talks with Mr Li Ka-shing's Star Television about equity participation in the satellite network, but they proved fruitless.

TVB recently entered into an agreement with Turner Broadcasting, Home Box Office, Enter-

tainment Sports Programming Network, Australian Broadcasting Corp and Discovery Channel to lease satellite space on Palapa, an Indonesian-owned satellite. TVB will supply Chinese language programming for one channel. Unlike Star, which broadcasts five "free-to-air" satellite channels, the TVB consortium will transmit encoded programming for subscribers only.

Analysis viewed Mr Murdoch's purchase of 22 per cent of TVB as only the beginning. Mr Murdoch is seen as the likely buyer of Sir Run Run's shareholding should he decide to reduce his holding further.

## Saudi Arabia to merge its two main oil companies

By Mark Nicholson in Cairo and Deborah Hargreaves in London

SAUDI ARABIA is to merge its two main oil companies creating the largest integrated oil concern in the world, the kingdom said late on Monday. Samarec, the kingdom's refining and marketing arm, will be merged into oil production company, Saudi Aramco.

"It will give the company more energy to look at expanding outside Saudi Arabia and compete head-on with the oil majors. Its potential power as a joint company is profound," said Mr Robin West, who runs Petroleum Finance Company, an energy consulting group in Washington.

Saudi Arabia is looking to expand its downstream outlets for oil through deals in Europe and Asia as well as continuing to expand its production capacity beyond 10m barrels a day. The company's drive to become involved in the industry worldwide will put it into direct competition with multinational oil companies such as Royal Dutch/Shell and Exxon.

Aramco is already the world's largest exporter with current output of 8m b/d and current production capacity of 9m b/d. The company is also custodian of the

kingdom's 295bn barrels of proven oil reserves.

Samarec will bring to the merger 1.53m b/d refining capacity from three wholly-owned and three joint venture refineries in Saudi Arabia. This will take the joint company into all stages of the oil industry: production, refining, transport and marketing.

Saudi officials said the merger came at the request of Mr Hisham Nazer, the oil minister, who has been looking to streamline the nation's oil industry for some time. Mr Nazer set up Samarec in 1988 to rationalise management of the country's previously autonomous refineries.

No details have been given of any possible management restructuring in Aramco, nor of the fate of Samarec's present managers. The decision came as a surprise to all but the most senior managers in both companies, according to some senior Aramco staff.

Before the move Samarec (Saudi Arabian marketing and refining company) ran the country's three domestic refineries at Jeddah, Riyadh and Yanbu and was the Saudi partner in joint venture export refineries with Mobil at Yanbu and Shell at Jubail.

These interests, along with Samarec's share of an additional joint venture refinery at Rabigh, part owned by Mr John Latsis, the Greek investor, will move under the umbrella of Aramco. Saudi Aramco already runs the Ras Tanura refinery - the world's biggest with capacity of 820,000 b/d until a fire in 1990 cut output to around 290,000 b/d.

But while Samarec managed Saudi Arabia's main domestic and export refineries, Aramco has over the past two years been increasingly developing its own downstream interests overseas through joint venture refining deals with Texaco in the US, Sasangul Oil Refining Company in South Korea and Nippon Oil, with which Aramco has signed a preliminary agreement to refine oil in Japan.

The newly augmented Saudi Aramco will continue a \$10bn-\$15bn expansion plan, accelerated since the end of the Gulf war in 1991, which is set to raise Saudi oil production capacity to a sustainable 10m b/d by next year from present levels of around 8m b/d. Samarec was also proceeding with an \$8bn programme to upgrade and expand all its domestic and joint venture refineries, with the exception of Rabigh.

## MEPC in £221.9m rights issue

By Vanessa Houlder, Property Correspondent

MEPC, the UK's second largest property company, yesterday announced a £221.9m (\$341m) rights issue, bringing the total raised by property companies in the equity market this year to more than £1bn.

The announcement, two weeks after MEPC's interim results, is likely to complete the recent round of fund raising by the UK's largest property companies.

MEPC is taking advantage of a sharp increase in its share price, which will allow it to issue new shares without greatly diluting its assets. The shares rose from 190p last September to close yesterday at 414p, down 8p on the day.

The proceeds of the one-for-five rights issue, which is priced

at 350p per share, will be partly used to refurbish and redevelop property within its portfolio. MEPC said the issue would also allow it to make selective property or corporate acquisitions as opportunities arose.

The money will initially be put on deposit, which will reduce MEPC's gearing from about 80 per cent to 60 per cent.

The rights issue was criticised by some City analysts yesterday for reducing the company's gearing at a time when property values were starting to improve. But Mr James Tuckey, managing director, denied that the rights issue was a degearing exercise.

The group's programme of disposals, partly designed to reduce borrowings, would proceed at a slower pace. MEPC has sold £139m of property since the end of the last financial year.

Mr Tuckey said the decision to make the rights issues was taken after the Board became convinced market prospects were improving.

The company said there was "evidence beginning to emerge in certain areas of the UK of new demand from occupiers. This, coupled with evidence of institutions returning to invest in property, provides the potential for a return to growth."

The Co-operative Insurance Society, which owns 16.7 per cent of the company, is taking up its full entitlement, as are MEPC's directors. The balance has been underwritten by Morgan Grenfell.

The company predicted the dividend would be maintained at 14.75p (net) for the year to end-September.



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## Rothschild Bank sees rise in provisions

By Ian Rodger in Zurich

ROTHSCHILD Bank, the troubled Zurich affiliate of NM Rothschild of London, has made provisions of Sfr270.9m (\$187m) against bad loans in the past two years, substantially more than previously estimated.

Mr Guy Wais, general manager, said yesterday that an investigation by Coopers & Lybrand, the accountants, following the discovery of leading irregularities early last year led to the increase in provisions from the previously stated figure of about Sfr220m.

Most of the lending was to the collapsed York Hannover and Castor property groups, and it infringed Swiss law restricting the amount a bank can lend to a single client.

The bank has maintained that the lending was arranged by its former credit manager, Mr Jürg Heer, and that he concealed the details from other bank directors. It has accused Mr Heer, who has admitted receiving commissions of some Sfr30m on the lending, of fraud and other offenses. Mr Heer has since fled Switzerland and an international warrant has been issued for his arrest.

The Swiss Federal Banking Commission and the Swiss Bankers Association are investigating the apparent failures of the bank's internal and external control systems. But Mr Wais said yesterday that financially "Heer's file" was now closed.

The bank's 1992-93 annual report reveals changes in its financial structure. Total assets halved from Sfr1.34bn at March 31, 1992 to only Sfr622.4m a year later. Mr Wais said this reflected a deliberate running down of its lending book in addition to the write-offs.

Shareholder's equity has risen from Sfr188.7m to Sfr206.1m, reflecting an injection by a Rothschild family company of Sfr120.5m in new capital. This was achieved by its purchase of a part of the bad loans at face value. The injection also made it possible for the bank to show a net income last year of Sfr12.8m compared with Sfr24.5m the previous year. The annual dividend was cut from Sfr10m to Sfr5.5m.

Sir Evelyn de Rothschild, chairman, said operating profits, which were down only Sfr2.5m to Sfr57.1m, were "good" and the bank's balance sheet was "extremely sound".

Swiss scandal, Page 16







## FINANCIAL TIMES

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## Banking on Mr Clarke

THE LORD MAYOR'S guests were treated to two very different, but equally important, speeches at last night's Bankers' and Merchants' dinner at the City of London Guildhall. Top of the bill was Mr Kenneth Clarke, promising much but revealing little on his first public outing as chancellor of the exchequer. But it was the vaudeville address of Mr Robin Leigh-Pemberton, reflecting on the lessons of his 10 years as governor of the Bank of England, which will have unsettled the stomachs of the City dignitaries.

Mr Clarke's performance, the first "Mansion House" speech to be accompanied by June strawberries rather than October apple pie, was that of the consummate politician rather than the economist or financier. He pleased his immediate audience by stressing the importance of his government's attachment to maintaining low inflation and returning the public finances to order. But Mr Clarke also played to the wider gallery, emphasising his Midlands roots, his knowledge of industry and commerce while placing a new emphasis upon economic growth and higher living standards.

## No changes

But Mr Clarke mixes political cunning with his populism. His speech contained no hostages to fortune. Indeed, it contained almost nothing of substance to exercise the minds and computers of listening City analysts.

On monetary policy, the chancellor announced no changes to the framework. His predecessor announced last autumn. He confirmed the government's target range for underlying inflation of 1-4 per cent and intends to monitor a broad range of indicators. But how does business' desire for a competitive and stable exchange rate fit into this picture? No target on display.

On fiscal policy, the chancellor aims to "restore the public finances to better health and back towards balance over the medium term". Growth alone, he said, would not do the trick. But does this require more discretionary fiscal tightening on top of those measures announced in the Budget? And will this mean further tax increases or spending cuts? No clues on offer.

## Let the eastern exports roll

A TIME of recession and high unemployment is an unpropitious one to seek to persuade EC governments to liberalise trade with their neighbours to the east of the Community. If, however, the EC's proclamations about helping central and eastern Europe are to be anything more than lip service, a rapid relaxation of trade restrictions is essential.

To countries now released from communist's grip, the Community needs to extend the stability and prosperity that it has so successfully nurtured in the west of the continent. Fulfilling this task is in the EC's eminent self-interest. Yet unless the Community provides adequate access for exports from the east, the region's passage into the world of capitalism will be unnecessarily arduous.

At the least, setbacks in eastern Europe would deprive EC companies of growth in markets which otherwise can be expected to show lucrative expansion during the next decade. At the worst, should the transition in eastern Europe seriously falter, this could extend far more widely the disruption and chaos already seen in the former territories of the Soviet Union and Yugoslavia.

EC Commission proposals on trade with eastern Europe will be near the top of the agenda at next week's Copenhagen summit. Foreign ministers have already agreed the main points of a plan to accelerate dismantling of barriers for imports of industrial goods, although France and Portugal have succeeded in diluting some parts of the deal.

## Starting point

If they are wise, EC leaders will take the proposals simply as a starting point. The Commission's package retains strong elements of protectionism for goods like steel, textiles and food - precisely the sectors where eastern Europe is most competitive. The common agricultural policy is a substantial hindrance to free trade in farm products. But the EC must pledge to eliminate the remaining barriers at the earliest possible date. This would match eastern European countries' separate commitment to reshape their economic structures as part of preparations for eventual EC membership.

As the region takes painful

As for the mix of monetary and fiscal policy that the chancellor thinks can deliver sustainable growth without running into trade difficulties, the subject was not addressed. Is the exchange rate sufficiently competitive? If inflation starts to pick up, will the chancellor allow the exchange rate to rise or instead tighten fiscal policy to choke off demand? How can the British economy, dogged by the twin Budget and trade deficits, possibly deliver sustainable growth and higher real wages for those in work? No discussion provided.

## Inflation trap

Yet it was Mr Leigh-Pemberton who sent chills down his audience's collective spine. "We now have low inflation combined with economic recovery, and this offers the prospect of sustained improvement for the first time in many years," he said, quoting from his own first Mansion House speech delivered in October 1983. "The sad fact that I could use exactly the same words today reflects the principal failure of policy in the intervening period - that we did not keep inflation under control."

The Bank, the governor said, has learnt from this failure. "The new policy framework which was put in place after our departure from the ERM is one which will not only, I believe, prove successful and workable in the UK, but is also being applied in other countries." But with one exception: the Bank of England, in contrast with its European partners, remains the servant of the executive rather than the master. Nor is the Bank's status likely to change, despite Mr Leigh-Pemberton's advice. The chancellor has made it plain that independence for the bank is not on his own agenda, although his speech suggested he is content to let others go on debating the matter.

Yet it is the repeated willingness of successive British governments, making promises just like Mr Clarke's, which have won elections by delivering higher living standards to those in work today at the expense of higher inflation in the future. This is the prime cause of Britain's repeated boom-bust cycles. Mr Clarke's most important task is to show that he knows how to avoid this trap.

## Tiny proportion

Imports from the east make up a tiny proportion of the EC's trade. Last year, the EC's combined total of purchases from Bulgaria, the Czech and Slovak republics, Hungary, Poland and Romania made up only 1.6 per cent of EC countries' overall import bill. The EC imported more from both Austria (1.9 per cent) and Sweden (2.1 per cent).

Since 1988, eastern Europe's gross domestic product has fallen by roughly 20 per cent. Even with the effects of the recession, the EC's GDP this year, by contrast, will be around 8 per cent higher than five years ago. Since the fall of the Berlin Wall, eastern countries have expanded exports to the west to compensate for a collapse in sales to the former Comecon area. Yet in recent years the EC's exports to these countries have risen much faster than its imports. As a result, the EC, which up to 1990 registered a trade deficit with the area, is running a substantial surplus.

Eastern Europe will suffer for many years the legacy of communist mismanagement. It would be folly to super-impose on this the effect of short-sightedness by a Community which can afford to be more generous. Eastern Europe's efforts at recovery will be largely self-generated. But without a strong helping hand, these countries could slip backwards. Letting them export their produce without restraint to the more prosperous western part of the continent is the most effective way of guarding against this possibility.

Turn in to the latest international debate about what sort of television the world will be watching in the 21st century and you might guess that a repeat is being broadcast.

European Community ministers will today discuss an "action plan" to promote wide-screen television services in Europe. It is the sixth time ministers have debated such a plan since the Commission put forward the idea in April 1992.

The crucial issues in the debate remain unchanged. What steps should the EC take to encourage the next generation of television hardware? And how much should it spend on promoting advanced television for Europe?

The international television industry now has to choose from a menu of options including wide-screen television, digital transmission technology and high-definition, cinema-quality pictures. The choice is a complex one because the options are not mutually exclusive. In Europe, the priority in the action plan is to promote a shift towards broadcasting normal definition TV on wider screens. The proposed EC plan would not tie the industry to any particular transmission technology. Britain is blocking agreement on the plan because it believes the proposed funding - down from the original Ecu500m to Ecu228m - is still too lavish.

Meanwhile, in Japan, HDTV has arrived, using existing analogue technology. But the price of HDTV receiver sets has only just come down through the symbolic ¥1m (£6,250) mark, and programming is both scarce and bland.

Greater strides have been made in the US, where three rival consortia agreed three weeks ago to club together and work on a single technical standard for digital HDTV. But there are substantial technical difficulties to be overcome before a working system is in place, and US television stations fear they will not be able to afford the equipment necessary to satisfy the manufacturers' desire for a high-quality system.

If mass-market, cinema-quality television still seems a long way off, manufacturers, broadcasters and governments appear to have learnt from both the mistakes and breakthroughs of the past decade and are working in far greater harmony than the surface turbulence would suggest. Moreover, after seven years spent focusing on the potential of higher-definition technology, they have begun to turn their attention to what consumers actually want from television services - better quality, greater choice, or a combination of the two - and how much they are prepared to pay for them.

The trigger for the new debate is the arrival of digital technology, and its extension to television transmission. Digital compression techniques enhance quality and allow far more services to be provided on the same channel. Digital could, for example, permit broadcasters to stagger the start-times of the same film on a movie channel, giving viewers the choice of when to start watching.

Digital HDTV has the further advantage that it can be broadcast terrestrially, as well as by cable and satellite, like existing TV.

Moreover, the opportunities provided by digital appear to have united old rivals and put paid to Europe's efforts to gain a competitive advantage by setting exclusive HDTV standards - an outcome the European Commission has now accepted.

In the US, for example, the Federal Communications Commission, which has to approve an HDTV standard, was originally considering proposals from US, Japanese and European companies. The Japanese analogue proposal was eventually eliminated in February when it became clear that the FCC wanted a digital standard. The "grand alliance" formed last month includes both Philips and Thomson Consumer Electronics, the Dutch and French electronics groups which were supposed to be among the principal beneficiaries of the EC's original HDTV strategy.

## Andrew Hill and Andrew Adonis examine moves towards the next generation of television hardware

## Turn on to the bigger picture

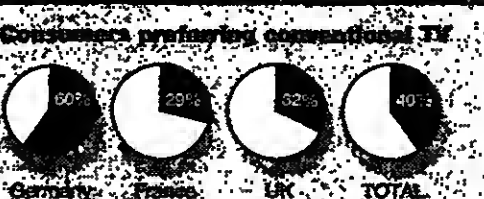
	Germany	France	UK	TOTAL
Respondents preferring wide-screen: premium prepared to pay				
The same or less than conventional set	13%	23%	24%	20%
+12% premium	7%	16%	3%	9%
+13% to +30% premium	25%	34%	46%	35%
+31% to +50% premium	25%	6%	21%	22%
+51% premium	18%	12%	7%	12%

## Main reasons for preferring wide-screen

	Germany	France	UK	TOTAL
Better for watching films (more like a cinema)	67%	43%	56%	55%
Better picture (quality and size)	42%	66%	53%	54%
TV more attractive	33%	12%	4%	16%

## Potential drawbacks to wide-screen

	Germany	France	UK	TOTAL
Living room too small	51%	46%	17%	38%
TV set too large	14%	29%	49%	30%
Distorted picture	16%	17%	5%	13%
Poor quality picture	19%	3%	5%	9%
Price	8%	3%	5%	5%



Meanwhile, the European Commission, EC governments and industry have given new impetus to the co-ordination of digital research and standardisation. A group set up by Germany's posts and telecommunications ministry is aiming to promote the acceptance of a draft digital standard for ordinary, non-HDTV broadcasts by the end of 1993 and for digital satellite and cable transmissions in Europe as early as 1995.

The highly damaging failures of the EC's HDTV legislation in the 1980s are still fresh in the minds of the German organisers. The EC's first efforts to develop an analogue HDTV system were undermined when commercial broadcasters and

gang Becker of the German telecommunications ministry. "What do the users want, and what are the broadcasters and [manufacturing] industry going to do about it?"

Among EC companies, there is cautious optimism about the work of the digital group. Mr Yves Feltes of Societe Europeenne des Satellites (SES), one of the pioneers of the standard-quality satellite broadcasts, says SES will be in the vanguard of digital transmission, although it is too early to say whether the co-ordinated approach will work. "At least this time, the major players are talking to each other," he points out.

Consequently, work on digital technology should also dovetail with the EC's action plan - if it is ever adopted. It would fall to the European Commission to marry the two elements, when it comes up with a formal digital television strategy in the autumn. The aim of EC funding is to stimulate new wide-screen services, thus boosting a consumer electronics market which the Commission believes will eventually be interested in everything that digital HDTV has to offer.

As far as the US challenge is concerned, the involvement of Philips and Thomson in the grand alliance, the efforts of the European digital working group and the development of wide-screen television sets in the EC indicate that efforts on both sides of the Atlantic should complement rather than conflict with one another. Philips, for one, says its experience with the US grand alliance will be of use in developing a European digital strategy through the working group.

A digital HDTV standard developed by the US grand alliance is unlikely to become the global standard because of technical differences between European, US and Japanese broadcasting infrastructure. But, according to the European Commission and to the EC companies involved in the US effort,

## The supposition that, without a hand-out, broadcasters will not film and broadcast in wide-screen format is debatable

tancy, wide-screen TV was preferred to conventional TV by a margin of 56 per cent to 40 per cent. About two-thirds are in favour in France and the UK, with a 60:30 ratio against in Germany.

Those favouring wide-screen gave as their main reason that it was better for watching films. The size of the set and picture quality were the main reasons against.

On price, although three-quarters of consumers favouring wide-screen format were willing to pay more for the new sets than for conventional sets, barely one in three - that is a fifth of all consumers - was prepared to pay more than a third more.

However, says Mr David Mercer, an analyst at BIS: "That still means there are millions of people across Europe prepared to pay more for wide-screen, even before en-

hanced technology."

He believes that, once wide-screen has been launched and marketed as "home cinema", prices will begin to fall and more people will want to buy it.

The retailers see it that way, too. If the EC package goes through, Dixons, the UK retailer, hopes to have "affordable" wide-screen sets in its shops by the autumn of 1994. It expects a 26-inch wide-screen format - the replacement for the 21-inch conventional screen most common in the UK today - to retail for about £1,000, coming down to the equivalent of today's £850 within two or three years.

"The TV market is mature and needs new products," says Mr Roger Salmons, Dixons' group planning director. "Wide-screen is the next major product on the horizon. Once consumers have made the step up, and manufacturers have brought the price of wide-screen down, the introduction of HDTV ought to be commercially viable when it becomes available."

Manufacturers are equally confident of their ability to cut the cost. "Prices will be quite high for the first generation but, once we have an agreed standard [for wide-screen transmission] and volume rises, the only cost over and above the current technology should be the size of the larger screen," says Mr Robert van Oostenbrugge, manager of Philips' broadcast media division.

That leaves the broadcasters. Most of the EC's Ecu228m, plus an additional amount which the industry or national governments may be obliged to provide under any final agreement, is a sweetener to encourage them to produce programmes in a format compatible with wide-screen.

The supposition that, without a hand-out, the broadcasters will not film and broadcast in wide-screen format is debatable.

Mr Chris Daubney, chief engineer at Channel 4, the independent UK broadcaster, claims that there is "no obvious revenue to be gained from going to wide-screen, but there are certain capital costs - studio equipment and so on - for which we would like compensation."

On the other hand, Mr Barry Cox, director of corporate affairs at London Weekend Television, says bluntly: "We will need to go wide-screen anyway if the market is going that way. But if the Commission is putting up the money, of course we will apply."

In fact, the costs involved do not appear to be enormous: observers put the total charge to the UK broadcasting industry at less than £100m.

There is also no question of broadcasters shifting all their production to wide-screen in one go. The impact on existing small-screen users, who will very likely have to make do with unattractive "letter-box" reception of programmes shot for wide-screen, will initially keep it restricted, probably to films, sport and drama.

The path ahead is still far from straightforward. Even if agreement is reached today on a funding package, the debate continues between proponents of two alternative means of proceeding to wide-screen at "standard" definition.

Some of those involved want to proceed as soon as possible with the so-called "PAL-plus" system, which enhances the existing signal sufficiently to take wide-screen; others want to wait until digital is available. The industry could end up moving from one to the other.

Finally, of course, comes the consumers' actual readiness to buy the new sets. Expect some cultural differences. According to the BIS survey, by far the largest objection to wide-screen in the UK was from respondents fearing that the screen was too large; by contrast, the French and Germans, given the same options, were mainly afraid that their living rooms were too small.

Compelling subject for a documentary, perhaps.

## Ex-Governor for hire

With only a fortnight to go before the newly-emitted Robin Leigh-Pemberton hands in his keys as governor of the Bank of England, it is far from clear what he is going to do next. He has had a good innings at the Bank and as a fit 66-year-old he has a few years service left in him.

If he should run short of job offers he could always seek advice from his old chum and long-time Bank director, Sir Adrian Cadbury, whose ProMed body specialises in finding non-executive directors for tough jobs. But it is unlikely to come to that. Before he became a central banker, Leigh-Pemberton had been chairman of a clearing bank (NatWest) and an industrial company (Birmid Qualcast).

The Fed's Paul Volcker and the Bundesbank's Karl Otto Pöhl, have had no difficulty collecting an impressive portfolio of directorships when they stepped down. Neither should Leigh-Pemberton. However, there is one particularly delicate matter which needs to be resolved. Leigh-Pemberton is one of two Brits on the board of the Bank for International Settlements, the central bankers' talking shop. The other is his predecessor, Lord Richardson, who has just been re-elected for a further three-year term. Eddie George gets a seat automatically. But will Lord

## Mental aides

Sir Charles Powell, once the most feared civil servant in Whitehall, has enlisted the aid of his old mistress, Lady Thatcher, to launch an appeal to finance research into schizophrenia.

Sir Charles, who forsook the intrigues of Downing Street for the more civilised world of big business, is leading an effort by the Mental Health Foundation to find a cure for one of the world's most serious but incurable illnesses. Observer can think of no better cause for a re-union of one of Downing Street's most famous teams.

## Visa problems

It appears that Britain may have gained a slight diplomatic advantage over the French with the victory of Chief Moshohou Abiola in Nigeria's presidential elections. Abiola, who made his fortune selling telecommunications systems to the Nigerian government in the 1970s, has close ties with Britain. He owns the London-based African Economic Digest and is a frequent visitor to the city. However, Observer hears that France's corps diplomatique may need to mend a few fences.

## OBSERVER



The problem dates back to Abiola's application for a visa to visit France three years ago. After some delay, the chief's personal assistant went to the French embassy in Lagos to complain. Embassy staff, who had not heard of the great man, demanded Abiola provide a return ticket before issuing the visa. "Chief Abiola does not need a ticket," the assistant explained. "He has his own plane."

## Disconnected

So all publicity is not necessarily good publicity, after all. In addition to Michael Bates, it would seem that Christopher Morgan, the PR

man at the centre of the row over political intervention in connection with Asil Nadir, had another good buddy who was also a Hampshire MP. In the register of members' interests, Cery Malone, the clubbable Conservative party deputy chairman, has listed Morgan & Rogerson as a client.

The Winchester MP, who says "Christopher was and is a personal friend", explains that he ended the formal relationship at the end of May because of mounting political commitments.

## Fighting fit

As the smoke starts to disperse over the Tottenham Hotspur Football Club battle ground, the casualty list does not appear to be quite as long as expected.

General Portfolio, the Harlow-based insurance company, for example, reports that it has not been damaged by events. It will continue to flog insurance policies to Spurs supporters for another 14 months at least, even though the deal was set up by ousted chief executive Terry Venables.

Venables did the deal with GP because he liked the look of its national sales director, Bob Patmore, a former star of the Tottenham youth team. But GP spokeswoman Valerie McKirdy stresses that it had not been a personal deal but a three-year agreement signed with one of the Tottenham Hotspur companies.

"We are certainly not aware of anything to suggest that the agreement is not continuing," she says.

To be fair, GP is quite practised in dealing with the sensibilities of new owners. A wholly-owned subsidiary of a French company, it continues to use a logo of the Duke of Wellington.

## Same old story

It might be out of bounds and a soft target. But Kamesh Bahl, who took over as boss of the Equal Opportunities Commission yesterday, has already fired off a stiff letter to one of the dustier corners of the British establishment which still discriminates quite openly against women.

Ms Bahl says she was humiliated last week, when meeting a friend at the Oxford and Cambridge Club in London's Pall Mall, to discover that, as a woman, she had to wait downstairs for her male escort and, later, could only drink her wine in a certain corner of the building. Sadly, says Ms Bahl, the EOC is powerless to do anything about private clubs, such as the Oxford and Cambridge, which still bar women from full membership.

## Once again

Why did Lady Thatcher come out so strongly in support of John Major? The answer is as easy as ABC. Anybody But Clarke.



On the second Tuesday of every month, 13 central bankers meet in the sleepy Swiss town of Basel to review the monthly accounts of the Bank for International Settlements, one of the world's most powerful and secretive banks.

## Banker to the bankers

### Robert Peston on a powerful and secretive institution

The bankers say their main reason for the trip is for the other meetings held there, during which they discuss weighty issues of monetary policy and the health of the financial system. However, the 15-minute meetings are crucial since the revenues from the bank pays for all the other activities and the sumptuous meals and rural excursions that make the sojourn more pleasant.

The BIS set up in 1930 to replace German first world war reparations back to Germany as government loans, is in the words of Mr Lamfalussy, a mixture of arcane traditions and banking strength. But it has come to play a pivotal role in the world's financial affairs, through a combination of secrecy, financial strength and technical expertise.

Tucked away at the back of its latest 230-page report on global monetary conditions and international banking supervision, are the balance sheet and profit-and-loss account. They show that last year the BIS paid a record \$874m dividend from record profits of \$271m, while its balance sheet expanded at an unprecedentedly fast rate.

The location of the figures reflects the banking department's shy public posture. The BIS is the central banks' bank - 84 per cent of its shares are owned by 33 central banks with the balance held by private shareholders - and the glare of the limelight would not be conducive to its business.

"The main banking activity of the BIS is to help the reserve management of central banks," Mr Lamfalussy said. This means that central banks place substantial amounts of their foreign exchange reserves with the BIS, normally on very short-term deposit. "Between 85 and 90 central banks deal with the BIS," he added.

"Our share in world foreign exchange reserves is normally around 10 per cent." At the end of March, the BIS held \$106bn of deposits from central banks - 60 per cent in dollars - 28 per

cent more than the previous year.

According to Mr Lamfalussy, the BIS's success stems from its liquidity and its discretion. When there is uncertainty in foreign exchange markets, central banks need to know they have instant access to their reserves, in case they have to intervene in the markets. "If a central bank rings up at 4pm and asks for \$2bn, we can give it to them immediately," Mr Lamfalussy said. "No other bank can do that."

The BIS's financial skills and liquidity were tested as rarely before during the instability which rocked the European exchange rate mechanism last year.

**'If a central bank sheet rings up at 4pm and asks for \$2bn, we can give it to them immediately'**

European central banks sold an estimated DM188bn between June and December in an attempt to reduce upward pressure on the D-mark. Most of the sales were for dollars.

At the height of the crisis, between August and the end of October, central bank deposits at the BIS increased by almost \$27bn. If central banks had placed these funds directly into the money markets, speculators would have found it even easier to work out what the banks had been up to.

The BIS also lends to central banks in an emergency. Mr Lamfalussy hinted that central banks whose D-Mark reserves were running low because of sales of the German currency, may have borrowed some from the BIS during the ERM debacle, before rebuilding reserves through a bond issue or currency swap.

He added that the BIS pays an interest rate on central

banks' deposits below commercial bank rates but above treasury bill rates (government-issued securities). It then makes a small profit by placing these funds on deposit with the most financially secure commercial banks or in government securities.

Central banks accept a low rate of interest because of the BIS's balance sheet strength, which guarantees the security of their deposits. But assessing its net worth is complicated: it admits using unusual accounting techniques and undervaluing and hiding some of its assets.

The BIS has built up gold and currency reserves worth \$4.3bn, expressed in the quaint convention of gold francs, a monetary unit invented by the BIS and used exclusively by it. When translating currencies into gold francs, the BIS uses a fixed gold price of \$208 an ounce, well below the current market price of about \$368, which means that one gold franc is equivalent to \$1.94.

At the end of March, the BIS's published capital and reserves in gold and currencies were \$2.9bn (or \$4.3bn). But several more calculations are required to arrive at a more accurate measure of the bank's financial strength. As Mr Lamfalussy said, its assets are "substantially more than that".

One disguised source of wealth is its "miscellaneous account", an unusual balance sheet classification. Unrealised gains and losses on its holdings of currencies and securities are taken through the miscellaneous account, which stood at the equivalent of \$2.9bn at the end of last year. Many banks would include all of that in their capital and reserves. In addition, the BIS owns and occupies a 21-storey office block in Basel, and owns several acres of prime property around it. This is all valued in its balance sheet at \$2.9bn.

Total net assets could be as high as \$9bn. Even though central banks and shareholders recognise that its strong balance sheet is the key to its ability to do what they want, they cannot help casting a covetous eye on the gold, cash and real estate. Some central bankers believe BIS is over-capitalised and should perhaps return part of its capital to its shareholders in the form of a special dividend.

Such a suggestion is anathema to Mr Lamfalussy. The BIS, he said, must have sufficient capital to borrow and lend billions in the time it takes for a central bank governor to raise his eyebrow.

In three weeks, the Royal Commission on Criminal Justice will deliver its verdict on the health of the English criminal justice system.

Set up two years ago after a series of miscarriages of justice, the commission, chaired by Lord Runciman, was charged by the government with carrying out the most far-reaching review for more than 100 years.

The legal establishment hopes not only for a report that could help restore public confidence, but for a blueprint for the next century. "The judiciary has the highest expectations," according to Lord Taylor, the Lord Chief Justice.

But doubts have surfaced about what the report will achieve. Many lawyers believe that, by tackling everything from police investigations to the problems of long fraud trials, the commission will not have had enough time to examine the issues - some far from clear cut - in depth.

Lord Williams of Mostyn, QC, last year's bar chairman and Labour's legal affairs spokesman in the House of Lords, says it is a "watershed". But he has doubts about what it can accomplish: "I hope to goodness they've had enough time."

The political impetus for change has been the need to restore confidence in English justice. But the government's hands will be tied both by public spending constraints and competing political priorities.

The best hope for concrete proposals is on the question of miscarriages of justice. Studying the events arising out of the IRA's 1974 mainland bombing campaign should have enabled the commission to identify several factors that contributed to the wrongful convictions of the so-called Guildford Four, Maguire Seven and Birmingham Six.

The commission is likely to recommend the creation of an independent tribunal to take the investigation of suspect cases out of the hands of the Home Office. It is also expected to recommend the establishment of an independent forensic science service, to give the defence access to forensic facilities enjoyed only by the prosecution at the moment.

Such firm recommendations are, however, likely to be the exception rather than the rule. Much of the evidence received by the commission has been conflicting.

Disputed confessions, for example, are central to most alleged miscarriages of justice.

## A verdict but no conviction

A review of the English criminal justice system is unlikely to fulfil expectations, says Robert Rice



Judgment time: Lord Runciman (right) studied wrongful convictions, such as the Birmingham Six's

A change in the law, to prevent a defendant from being convicted on a confession unless it is made in the presence of an independent third party or supported by other evidence, would seem an obvious recommendation.

Yet this has proved a controversial area. The commission found that, in nine out of 10 cases in which confessions were central to a case, there was corroborative evidence. In the remainder, the police could have produced it if needed, but had chosen not to in order to save time and money. This, say some, shows that a requirement to produce corroborative evidence in all cases is an unnecessary expense; others say that, if corroborative evidence is available in most cases, the police should be required to produce it.

While high-profile issues such as ways of preventing miscarriages of justice are expected to lead to firm recommendations, the bulk of the report is likely to concentrate on cutting costs and increasing efficiency. It will also have to tackle the delicate question of the balance between the powers and rights of prosecution and defence.

Mrs Barbara Mills QC, director of public prosecutions, believes the best way to cut costs is to reduce the number of cases that go to the Crown Court for jury trial. She has

urged the commission to recommend the abolition of the defendant's right to choose jury trial for offences that can be tried either by magistrates or in the Crown Court.

Of the 120,000 cases committed by magistrates to the Crown Court each year, about 35,000 end up there because the defendants have elected jury trial. The average daily cost of a Crown Court trial in 1992-93 was \$6,850. The costs of a trial in a magistrate's court is estimated at less than half that figure.

However, the DPP's proposal is unlikely to find favour with the commission, mainly because the right to be tried by one's peers is strongly supported by the judiciary. Lord Taylor calls it "an inalienable right going back to Magna Carta".

Mrs Mills can expect more support for her call for a formal system of plea bargaining, where an accused can secure a lighter sentence in return for a guilty plea.

At the moment, guilty pleas do generally lead to reductions in sentences, but the process is informal and arbitrary. The prosecuting authorities, judges and the bar want an open system, under which defendants are guaranteed a sentence discount for a guilty plea secured at the earliest opportunity.

The DPP sees plea bargaining as the best means of tackling the waste caused by "cracked trials" - trials that are aborted (and move immediately to sentencing) when the defendant changes his or her plea to guilty at the last minute. In such cases, all parties will already have prepared for a full trial.

Some 70 per cent of defendants committed by magistrates to stand trial on a not-guilty plea change their plea to guilty at the Crown Court. About a third of them enter a guilty plea on the day of the trial or just before, causing a cracked trial.

Lord Mackay, the Lord Chancellor, leads the government's support for formalised plea bargaining. Mr George Staple, director of the Serious Fraud Office, sees it as the solution to problems of long and complex fraud trials. "By avoiding the contested trial, with all that it implies in terms of expense and time and manpower, a plea of guilty is the single most effective means of shortening the process," he says.

But Lord Roskill, the former law lord who chaired the 1986 Fraud Trials Inquiry, is opposed to formalised plea bargaining. "The real objection is that it enables people to buy themselves off."

He is also concerned that plea bargaining may induce the innocent to plead guilty or

feel there is pressure on them to do so. The result could be to encourage miscarriages of justice. This concern is shared by Justice, the law reform pressure group.

A further difficult question for the commission is how to correct the perceived imbalance between prosecution and defence: protecting the rights of the defendant while ensuring that the prosecuting authorities have the armoury to bring the guilty to justice.

Many judges, including the Lord Chief Justice, believe the odds are weighted too heavily in the defendant's favour. Few defence lawyers agree, although the opinion of the judiciary may carry more weight with the commission.

Some inroads are likely into the defendant's right to silence: the right not to say anything in his or her defence, either to the police or in court. The central issues are whether the court should be able to draw inferences from an accused's failure to explain alleged criminal conduct before trial, and whether the so-called "ambush defence" - where an accused remains silent throughout an investigation but offers an explanation at trial, taking the prosecution by surprise - should be outlawed.

The commission's research found that silence may have hampered the conviction of the guilty in only 2 or 3 per cent of cases. Nevertheless, the number of people who argue that the innocent have nothing to hide by giving an explanation is growing.

The commission will probably recommend that the defence be required to disclose its case early in the pre-trial proceedings.

Controversy over this and other issues, coupled with the government's apparent reluctance to see radical reform of the system now, mean the commission will not produce the hoped-for blueprint.

Mr Kenneth Clarke, the former home secretary, has indicated the government intends to treat the report as a consultation exercise. If it accepts the commission's ideas, further detailed study of the practical implications is likely before any legislation.

With the recent climbdown over a means-related fines system (withdrawn in May after only seven months) fresh in the memory, the government will not be rushed into action.

Two years ago radical change seemed imperative. Now any reform looks likely to be at the margin.

## FT EXPORTER



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## LETTERS TO THE EDITOR

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### IoD presses case for independent bank

From Mr Peter Morgan.

Sir, Having campaigned for more than a decade for an independent Bank of England, the Institute of Directors is encouraged that the advantages of this ultimate privatisation are becoming accepted wisdom among a wider range of influential figures - not least the former chancellor of the exchequer and his predecessors - to whom we have made repeated representations. The government is naturally

wary of relinquishing its hold over one of the levers of economic control, and claims that an independent central bank could not have brought down inflation more quickly than the government. Yet inflation would not have risen to such a high level and wrought so much damage on the economy and business so frequently, had the Bank of England been able to operate a rigorous anti-inflation policy.

The objectives of an independent bank should be set by parliament, to which it should be accountable, openly and in detail, for the discharge of defined and limited responsibilities.

The Bundesbank and the Reserve Bank of New Zealand provide interesting precedents. Within these parameters the Bank would be free to operate in the best interests of the economy rather than for the benefit of political parties influenced by party politics

and the electoral cycle. Given the uncertainty surrounding the exchange rate mechanism and European monetary union, the best signal the government could give to our European partners and financial markets of its commitment to low inflation and sound money is to grant independence to the Bank of England.

Peter Morgan,  
director-general,  
Institute of Directors,  
116 Pall Mall, London SW1

### Forecasts

From Mr Roland Davis.

Sir, Gordon Mitchell (Letters, June 14), invites the Financial Times to publish forecasts of share prices. But that is exactly what the FT does. Need I remind him that in the absence of non-public information the best forecast of tomorrow's price is today's price? I hope Mr Mitchell is not wasting his money trying to guess which companies will outperform the market. Nobody should be picking individual shares now that the superiority of a diversified portfolio is well-established.

Roland Davis,  
Woodstock,  
Brook St,  
Cuckfield,  
W Sussex

### Karadzic talks peace but killing goes on

From Mr Bernd Karl.

Sir, It must be the climax of western perversion that after the complete failure of our politicians to stop the killing in Bosnia that the Financial Times should give Mr Radovan Karadzic, the Bosnian Serb leader, a chance to publish an article (Personal View, June 9).

How can one dare to give a war criminal such an opportunity, given the reality of the past 14 months of killing, torturing, raping and ethnic cleansing, mostly by Serbs. Do you really believe this is the way to prove our democratic system? The Serbs must be laughing.

A meeting in Luxembourg of foreign ministers of the EC is followed by a meeting of the

Nato foreign ministers making all the well-known declarations. Meanwhile, the Serbs are closing in on Gorazde and are using captured Muslims as human shields while advancing on the town - and Mr Karadzic in his article is talking about peace. I am completely puzzled about what you intended by publishing the article.

I must be very naive to have believed that the news media, and especially newspapers, should have played a more forceful role in condemning the inaction of our European politicians. The article you published is just doing the opposite.

I still cannot understand how we have allowed these

crimes to be committed after the atrocities of the Germans during the second world war. We witness them every night on TV and yet the world looks the other way. I am deeply disappointed that you chose to publish the article. Who other than a courageous press should point out the bigotry and hypocrisy displayed by the "civilised" western world in the Bosnian conflict?

I have just heard on the radio that Serb forces are attacking three "safe havens" - Zepa, Gorazde and Srebrenica. And Mr Karadzic talks of peace.

Bernd Karl,  
Wilhelm Hey Str 14,  
8000 Munchen 60,  
Germany

### Whistle stop

From Mr Guy Dehn.

Sir, Your article about the organisation Public Concern at Work, headed "Solicitor launches group to protect whistle-blowers" (June 14), is premature and somewhat inaccurate.

We have not been formed to protect "whistle-blowers" - employees who disclose confidential information in what they judge to be the public interest. Rather our object is to develop alternatives where employee concerns about public dangers are first raised and addressed within their organisation.

When we launch in the autumn, all will be clearer. Guy Dehn,  
barrister,  
Public Concern at Work,  
Lincoln's Inn House,  
42 Kingsway,  
London WC2B 6EN

### Amnesty report on women in Tunisia baseless

From Mr Mohamed Lessir.

Sir, With reference to your summary of the Amnesty International report on women in Tunisia ("Amnesty says women tortured in Tunisia", June 9), I wish to state the following.

The report is totally irresponsible and completely without foundation. It is based almost entirely on the content of propaganda leaflets from illegal extremist groups whose declared objective is to undermine the Tunisian government. Therefore, we reject and deny its allegations, most of which have been refuted in previous government responses while others pertain to women who have been subjected only to measures authorised by law. They have never been maltreated, tortured or been the victims of any other form of abuse.

Other testimonies contained in the report were given by women whose identities were not revealed, but who belong to two extremist movements, both of them banned. Amnesty has repeated and endorsed the allegations but, under the pretence that it is fearful of reprisals, has not checked any of them through the usual procedures. This pretence is intended to harm Tunisia's reputation and undermine its judiciary. Also, no prior notice of the report was given to the Tunisian government as is usually done by Amnesty.

It is ironic that Tunisia, of all countries, should be singled out for criticism in connection with women's rights when the country is widely acknowledged to have achieved more progress in that area than any other country in the developing world and is often called

upon to chair human rights committees in regional and international forums.

Tunisia has in the last few years signed and ratified the UN convention against torture without reservations and has set up a higher committee for human rights and fundamental liberties, and a commission of inquiry into earlier allegations received from Amnesty. The president of the republic has also nominated a councillor for human rights while units were set up in various ministries to deal with human rights. Furthermore, an ombudsman has been appointed with a full team to support him in his job.

All these measures testify to the strong commitment of Tunisia towards human rights. Mohamed Lessir,  
Ambassador of Tunisia,  
29 Princes Gate, London SW7







## BUSINESS AND THE ENVIRONMENT

Saving energy is generally far cheaper than building new power plant, but convincing consumers of this simple and obvious message takes effort and skilful persuasion.

However, a Canadian company has taken on the task of preaching the virtues of power conservation to utilities and energy users around the world. Its scheme has attracted more than 25 utilities, from Mexico to the Czech republic, and others are expected to join soon.

Power Smart began as the energy conservation initiative of British Columbia Hydro, the government-owned utility. The company spent \$650m (£30.7m) developing a wide-ranging package of programmes for its own use, and then realised it could do even better if it worked with other utilities.

BC Hydro found that the province's population of 3.5m was not enough to interest manufacturers to go along with its plans. They were reluctant to take the trouble to meet BC Hydro's standards for products such as energy-saving motors, low-power refrigerators or high-efficiency insulation, and then face the same process for the next utility down the road.

So BC Hydro set about bringing other utilities into its scheme. It transferred its conservation expertise into a separate company - Power Smart - two years ago.

Now, most of Canada's electrical utilities have signed up, and Power Smart is optimistic about further expansion in eastern Europe, South America and the US, all areas which already have one or more members. In March, the firm signed up its second US member, American Municipal Power-Ohio (AMP-Ohio), which supplies electricity to more than 77 communities.

The utilities which have joined vary widely in size. BC Hydro has a capacity of more than 10,000MW, mainly from hydroelectric dams, and supplies more than 1.5m customers. The smallest member, Caribbean Utility Company, on Grand Cayman Island, uses diesel generators with just 71MW of capacity for 12,600 customers.

But they all face the same simple economics - it is nearly always cheaper to encourage users to save a kilowatt hour of electricity than it is to build the capacity to generate an extra kilowatt hour. At BC Hydro, which has low power costs, it is estimated to be five times more expensive to increase capacity than to save energy. Nor does the strictly financial cost of expanding capacity include the strains that generating electricity places on the environment.

The generic term for schemes such as Power Smart is demand-side management. Once a typical programme is up and running, most

# The smart way to save energy

A Canadian company is showing utilities the virtues of power conservation, writes Stephen Wisenthal

of the money is returned to customers in the form of rebates, customer help lines and other types of service, says Tom Cave, Power Smart's director of energy services.

Short-term financial incentives are used to overcome customers' resistance to the higher initial cost of energy-efficient equipment, but the benefits - to the customer and the utility - last much longer. And a crucial component of the programme is marketing.

"To get past the engineering barriers, you have to get people to think about conserving energy. The most powerful energy-saving technique of all is changing people's attitudes, and changing attitudes is essentially a marketing function," says Cave.

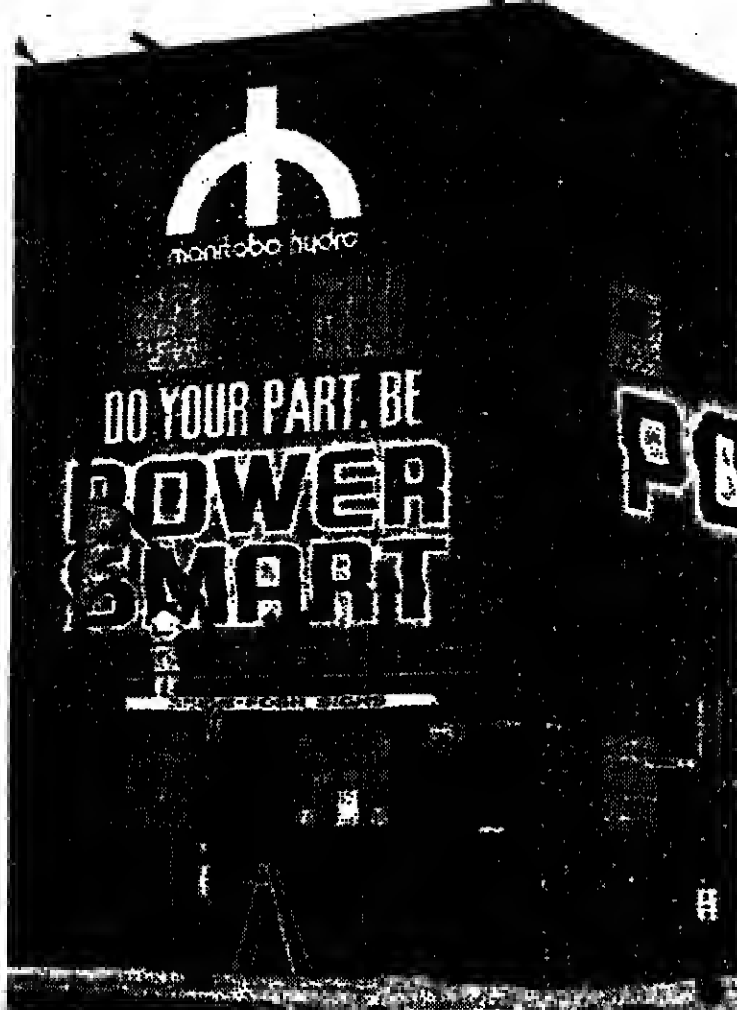
Under the umbrella of demand-side management, different utilities have widely varying goals. Utilities in developed countries usually want to discourage consumption across the board - for industrial, commercial and individual customers.

In eastern Europe, on the other hand, the problem is seen as too much consumption by industrial users and not enough by residential consumers. Governments there want citizens to have refrigerators and other items which improve the quality of life, says Eric Cardey, a vice-president at Power Smart.

Another important driving force behind conservation in eastern Europe is to preserve the environment. Much of the region's electricity is generated from low-grade coal which contains up to 3.5 per cent sulphur and creates considerable pollution.

Unfortunately, conservation cannot be the region's only concern. Large generating complexes were built under the communists to serve industry. Industrial demand, particularly for military production, has fallen off - but they have to keep selling the electricity to cover the cost of running the power plants they already have.

Yet governments in eastern Europe are taking a longer term view about residential consumption. "If they don't get energy efficient now, because there is so much retrofitting and new construction



Manitoba Hydro, a Power Smart member, paints the scheme's logo on its building

taking place, they're going to miss the boat," says Cardey.

And the Czechs and Slovaks have realised the importance of marketing in achieving these goals. When they joined Power Smart, they obtained the right to use the name and logo in their advertising and access to programmes for everything from low-energy water heating and lighting to efficient air compressors and even buildings.

As an indication of the sort of success they can hope for, Cardey

cites the promotion of the use of energy-efficient motors in British Columbia. The motors have a higher cost, which pays for itself in 1.5 to two years through energy savings. The average market share for high-efficiency motors for manufacturing use in North America is 3 per cent. In British Columbia, that share has been increased to 75 per cent since the Power Smart programme began.

Arthur Gelkie, president of Power Smart, says the strength of his com-

pany's programme is that it offers a complete range of conservation plans - for residential, industrial, commercial and institutional users. Being a member of Power Smart allows small utilities to take advantage of research they could not afford, he adds.

For an annual fee ranging from \$10,000 for a utility with fewer than 10,000 customers to \$75,000 for a million or more customers, Power Smart provides the right to use its logo in promotional materials. The utilities can also pick from a "library" of tested and proven ideas and, perhaps just as importantly, avoid costly mistakes.

Given the importance of marketing in encouraging conservation, the Power Smart brand name is seen as a key element, providing a shorthand for manufacturers and consumers to rally around. Even in non-English speaking countries such as the Czech and Slovak republics, the English language logo is used alongside a translation.

The company endorses products, allowing manufacturers to use the Power Smart logo on qualifying items and making it easy for consumers to identify energy-efficient choices.

A large number of Canadian suppliers are already involved. And companies such as Philips, the Dutch electrical concern, and Tungsram, the Hungarian subsidiary of General Electric of the US, are looking at certification for some of their products.

Power Smart has carried out consulting work in countries, including Costa Rica, Peru, Thailand and Russia, which have little or no history of demand-side management and which it is hoped will sign up as members in the future.

Utilities in developed countries have tended to be a harder market. They usually already have some kind of demand-side management in place, and it is more difficult to convince them of the benefits of banding together.

Western Europe has less need for help, largely because electricity prices have been very high for a long time. "Europeans seem to have positive attitudes already," says Cardey. For the future, Power Smart hopes to continue expanding. It has signed up its first gas utility and hopes to add more.

In the long run, Power Smart expects regions where a number of utilities have signed up, and achieved "critical mass", to become more autonomous, sharing resources within the region with counterparts which have similar concerns.

If BC Hydro, with some of the cheapest electricity in the world, can justify spending money to reduce consumption, anyone can, says Cardey.

The EC's green badge scheme is in disarray, says Peter Knight

## Eco-label still not sticking

Next month, the EC Commission launches its eco-labelling scheme without a single product displaying the much-awaited badge of environmental approval.

The Commission's original intention was to have at least five labelled products in the shops before the launch. Instead, the scheme is in disarray. Some countries such as Ireland and Portugal have failed to set up the necessary organisations to administer the label. Others like France and the Netherlands appear to be developing national schemes in preference to the EC's.

Some manufacturers are threatening a boycott and environmental groups complain that their views have been suppressed in favour of industry's. "Anyone can punch holes in the scheme. The really hard task is to find solutions and not just look for problems," says Julia Hailes, the environmental consultant on the UK Eco-labelling board.

Each country was supposed to set up a national board to organise and administer the label. The UK board is known to be critical of the Commission's level of commitment to the scheme.

The idea of an EC-wide scheme was developed in the late 1980s in response to consumer pressure for an official stamp of approval on goods with a reduced impact on the environment. "We have suppliers who are trying to reduce this impact and want to tell our customers about it," says Alan Knight, environmental co-ordinator at B&Q, the UK do-it-yourself chain.

"But because most of our customers won't believe environmental claims made by manufacturers, an official eco-label is the best solution," he says. Experience with environmental labels in Germany, Canada and the Nordic countries showed that manufacturers could gain market share and possibly charge more for approved goods.

The EC hoped its label would satisfy demands from consumers and encourage industry to improve its environmental perfor-

mance. But the scheme ran into trouble. Methods for judging products were inadequate and created disagreements within industry and between environmental groups and manufacturers.

At one stage, it was decided that paper products with high proportions of recycled material would be favoured at the expense of those made with virgin pulp. This upset pulp suppliers who argued that recycling paper was not necessarily the best environmental option.

Recently, environmental groups have begun to press for the exclusion of products tested on animals. They say this must be a criterion but the label's administrators say animal testing is covered by other EC laws.

The Body Shop, a maker of personal care products which campaigns against animal testing, has threatened to boycott the scheme unless animal testing is included in the criteria.

The confusion and delay has disillusioned some manufacturers. Electrolux and AEG will continue to support the scheme and apply for labels, but Hoover is concerned that environmentalists are gaining too much say.

Hoover might not apply for a label for its washing machines. Bosch is undecided. The European Lighting Council has withdrawn from the negotiations to establish a label for light bulbs.

Manufacturers are also dismayed at the amount of red tape the scheme has encouraged. Details on the only product category so far to get the official nod - dishwashers and washing machines - have yet to be published in the EC's Official Journal. Publication is about three months behind schedule because the various Brussels departments are taking so long to process the paperwork.

"The one good thing is that the scheme has at least encouraged manufacturers to pay attention to environmental issues and improve their products. This is good for the environment, even if they decide not to apply for a label," says Hailes.

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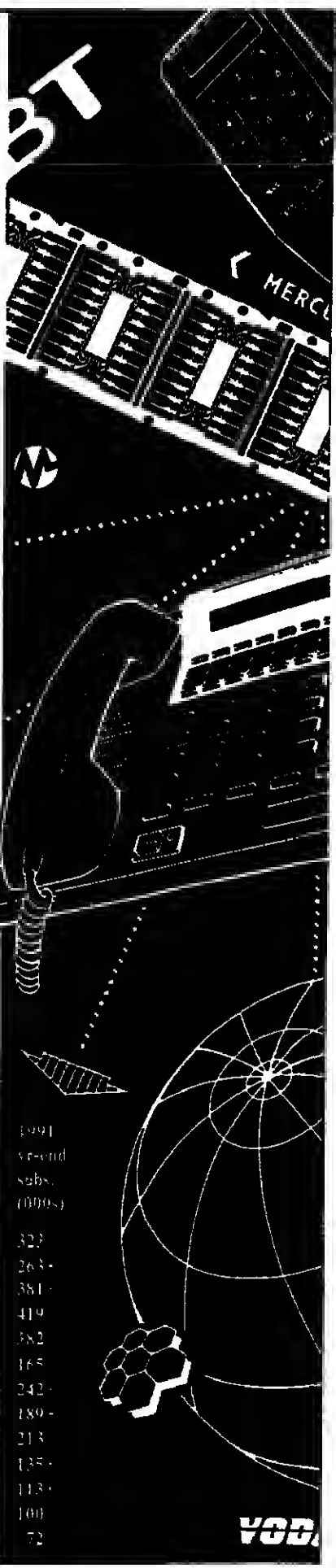
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## C&W veterans prolong their stay

Two Cable & Wireless directors, 54-year-old Brian Pemberton and 57-year-old Tom Chelwell, who between them have clocked up 58 years at the telecommunications group chaired by Lord Young, are retiring in July, but both will retain consultancy roles on a renewable annual basis.

The continuing association with C & W contrasts with the departure in early 1993 of Peter van Cuylenburg who saw his hopes of becoming chief executive dashed when James Ross was brought in from BP.

Pemberton, who joined the company in 1987, was responsible for restructuring the Hong Kong business during the 1980's. At one time he had seemed a possible successor, in the chief executive seat, to Sir Eric Sharp, but he was eclipsed by Gordon Owen, who then resigned after a power struggle on the arrival of Lord Young. There is no suggestion of any continuing rankle, however, and after the arrival of Ross, Pemberton had been made international director encompassing C & W's international network and the marine division as well as North America and Australia.

C & W was unable to specify how much time each departing director would continue to devote to the company. However, both remain on a number of subsidiary boards in their areas of expertise - Pemberton for the Asia Pacific region and Chelwell for the Caribbean.

Nor are they quite the last of the old C & W hands, despite the considerable changes in management wrought since the arrival of Lord Young. Mike Gale joined the company in 1989.



Peter Courtney, 60, who two years ago took early retirement from Boots where he had been group finance director, becomes non-executive chairman of Yorkshire Building Society, Britain's 12th largest society.

He succeeds Denis Macnaght, the former chief executive between 1975 and 1987, who is now stepping down from the board at the age of 66.

"Macnaght is a retiring Scottish accountant; Courtney is also a chartered accountant but a very different personality," says a Yorkshire Building Society spokesman, who adds that "no deliberate change of style is being sought."

Courtney, who has been on the society's board since he left Boots, is also a director of Throgmorton Trust and Rays.

## Transfer Technology recruits Bill Hayden

Transfer Technology, the fast-growing specialist engineering company headed by Labour MP Geoffrey Robinson, has recruited Bill Hayden to the board as its third non-executive director. Rhys Williams, chairman of the council at the University of Warwick and until recently a director of GEC, who has just been co-opted to the board.

Hayden, the former Ford of Europe manufacturing director, spent his last two years before retirement as chairman and chief executive of Jaguar, famously comparing Jaguar conditions at Ford's new prestige acquisition to plants he had seen in Gorky. Robinson is perfectly familiar with Jaguar, having been chief executive at just 35 in the mid 1970's when he remembers luring away a number of Hayden's key men. As it is, Ford is by far Trans-Tec's biggest customer on the car components side, buying 75 per cent of the company's manufacturing output for the automotive industry.

A principal reason for hiring Hayden, who lives just 20 minutes away from the Trans-Tec's Coventry office, is his knowledge of the Japanese market and his ability to deal with Japanese car makers, according to finance director Neil Logue.

A leading authority on Japanese work practices, Hayden was the author of a paper "BJ AJ" - Before Japan, After



Japan - written after a seminal visit to the country in 1979. At a time when it was still notably difficult for foreigners to divine much about Japanese manufacturing techniques, Hayden had come back "shaken" by the competitive gulf between Europe and Japan, and resolved dramatically to improve Ford's efficiency.

Robinson has said that he will split the role of chairman and chief executive at some point during the next 18 months.

"All the non-executive directors are possible chairmen," says Logue "but Hayden would fit the bill very well."

Hayden is also on the board of automotive design engineer Hawtill Whiting.

## Kleinwort's wolf man turns on L. America

Old Etonian Roger Palmer, whose private wolf pack has often had more publicity than his share tips, has hung up his hat after five years as Kleinwort Benson's chief investment strategist.

Palmer, 46, a former partner of Griveeson Grant before it was taken over by KB, has been picked to head his firm's move into the market for emerging Latin American securities. Whilst almost all of the major North American brokers are active in this market, it is a relatively new departure for a London broker.

However, Palmer says that it takes as long to fly to Buenos Aires from New York as it does from London, and KB is keen

to capitalise on its corporate finance connections in the region. It is one of the co-led managers of the partial privatisation of YPF, Argentina's state-owned oil company.

Albert Edwards, 32, Palmer's deputy for the last four years, takes over as global investment strategist. After three years at the Bank of England, he moved to Bank of America's Investment Management arm, before joining KB in 1988.

Palmer is the latest global investment strategist to switch jobs. Lisa Hosking, a member of Warburg's number one rated team, moved to CSFB a year ago, and James Capel's Alastair Ross Goobey left to head Postel.



Since the beginning of this month, staff at the Yokohama town hall are being urged to conduct meetings standing up.

To help them, the City Office has built a new conference room which, instead of tables and chairs, is furnished with 16 podiums. The new conference room was the result of mounting concern among Yokohama city staff over the number of meetings held each day and the amount of time each one took. If meetings were held standing, city officials reasoned, they were bound to finish sooner.

A growing number of Japanese companies are similarly looking for ways to improve efficiency among office staff.

Shiseido, the Japanese cosmetics company, has set aside two hours each day as "concentration time". Staff at the Tokyo head office do not attend meetings or answer the telephone during that period. Instead, a few members of each division take turns to man the phones allowing their colleagues to concentrate on the work in hand.

Shiseido launched the scheme in April after it discovered that interruptions during the day from telephone calls and meetings were the main cause behind the need for staff to work overtime.

The scheme is part of a wider programme aimed at improving productivity among its office staff. Shiseido hopes to reduce the number of overall working hours from the current 1,920 to 1,860. This may not seem much, but in Japan any reduction is highly unusual.

Toyota, the car manufacturer, is also implementing a programme this month which aims to raise productivity among office staff by 30 per cent. The company plans to achieve this by requiring divisions to re-direct 20 per cent of staff time to new businesses and, for the remaining 10 per cent, by reducing working hours.

What has triggered this growing concern with raising productivity is the economic slump, which is one of the worst for the country since the end of the second world war. Company profits in Japan, announced last month, were down for a third consecutive year.

Against this environment, a pre-occupation of Japanese company managers has been the need to ensure profitability even while markets are not expanding. Since it is socially unacceptable in Japan to make large redundancies, one way to maintain profits in sagging markets is to raise productivity.

Office workers have become a target of this productivity drive because, while Japanese companies are recognised for their achievements in raising productivity on the factory floor, they have not had

Japanese companies are looking for ways to improve efficiency in the office, writes Michiyo Nakamoto

## Standing oration



ROGER BEXLEY

similar successes in the office.

Between 1976 and 1990 the production costs incurred by all listed Japanese companies fell 5 per cent, largely as a result of improvements on the factory floor, says Kuniyoshi Sasaki at the Japan Productivity Centre. Meanwhile all non-manufacturing costs - those related to administration and marketing - rose 33 per cent.

Another reason why concerns about productivity are targeted at the head office rather than the factory floor is that most Japanese companies took on many white-col-

lar workers in the past few years when the economy was surging.

Between 1955 and 1991, the number of professionals and engineers employed by Japanese companies grew by 385 per cent, that of managers by 280 per cent and clerical workers by 326 per cent, the Japan Productivity Centre found. This compares with 111 per cent growth in the number of skilled workers.

The Bank of Tokyo estimates white-collar workers accounted for nearly 70 per cent of the rise in the number of employees between 1986 and 1991.

Personnel costs have been creeping up, from 11 per cent of revenues five years ago to 12 per cent last year according to the Ministry of Finance.

Sasaki lists several problems which must be tackled if productivity in the Japanese office is to be raised.

● Too many meetings. Sasaki attributes this to the "village society" mentality that still rules in Japanese companies. One reason for Yokohama City Office's standing-only conference room is because it discovered that city staff spent too much time there. According to its research, 200 conferences are held on average by City Office staff per day, with each conference averaging two hours 25 minutes.

The situation has even led the City Office to publish a booklet on how to cut down on meetings, which suggests they should not last longer than one hour on average, and that briefing papers should be restricted to a maximum of three.

● Unclear responsibilities. Multiple management layers in Japanese companies mean it is often difficult to know where responsibility for particular decisions lies.

For example, the department head is usually responsible for the department's activities, but it is the divisional head who is actually involved in day-to-day issues.

● Ineffective use of office equipment. When a new machine is introduced in a factory, the whole production process is reviewed and work is re-arranged accordingly to raise productivity.

But in the office, the wider use of PCs and copiers has not resulted in similar efficiencies.

"There is a need for office work engineering," Sasaki says. Office automation has not been accompanied by a reorganisation of work patterns which would raise productivity. If anything, he says, the volume of paperwork has increased.

While a return to better times may blunt current enthusiasm for productivity increases in the office, the labour shortages expected in Japan early next century mean companies may have to come up with solutions now. However, Sasaki does not expect a dramatic improvement in the foreseeable future.

The government's policy is to maintain employment levels even if that means excess labour among companies. Government subsidies pay for the salaries of workers seconded to subsidiaries, those who are asked to stay at home for lack of work, or who need to be re-trained to do other work.

## A sympathetic ear in the office

Employee counselling schemes are helping to make the workplace happier, reports Peggy Hollinger

A senior administrator in a London bank had spent several years successfully climbing the corporate ladder. Yet over a period of six months he began to experience headaches, a poor appetite and eczema. Demoralised, he started scanning the employment pages for a new job.

His departure might have cost his employer thousands of pounds, as it sought to train a replacement candidate. Yet due to confidential counselling paid for by the bank, which identified symptoms of stress due to a difficult relationship with a superior, he remained and was soon promoted to a more senior position.

A female employee in a computer firm faced similar problems. Yet after a few counselling sessions, she is back at work and enjoying a better relationship with friends and colleagues.

"My friends say I have changed a lot, become a lot more outgoing and assertive," she says.

Employee Assistance Programmes (EAPs) are run by 80 per cent of the top 500 US companies. In the UK, EAPs are also becoming an increasingly popular employment benefit, particularly in the banking, pharmaceuticals and financial services industries.

Since the late 1980s some 150 UK companies are estimated to have taken up comprehensive EAPs and the rate of participation is increasing, according to providers.

Groups as diverse as Whitbread and Mobil Oil are among converts to the advantages of providing confidential counselling to employees and their families throughout their working lives.

The counselling programme, usually contracted out to an independent firm of specialists, is often part of an occupational health programme.

Employees and (where appropriate) their families are generally given a card with a number to contact a counsellor either for telephone or face-to-face counselling.

The service may cover problems ranging from depression to debt, or stress arising from difficulties at home or in the workplace.

The argument for introducing such a programme may not be immediately apparent to frontline managers more concerned with the day-to-day job of surviving the recession. Improving the general sense of well-being among employees is likely to be lower on the list of priorities.

However, with recession forcing companies to cut staff, the pressures on those who remain have never been greater.

Ian Anderson, community investment manager of Whitbread, is adamant his company's experience is solid proof of the

and safety programme. Initially introduced to deal with the problems of its off-shore employees, many of whom are away from their families for two weeks each month, the facility has been expanded to cover 3,000 workers around the country.

John Cooper, Mobil's group medical adviser, stresses the importance of mental health at work, particularly in the off-shore industry. "If you are not functioning at 100 per cent, then you are a safety risk," he says.

Employees with problems will either refer themselves or can be referred by managers. If referred, it is up to the employee to decide whether to take up the offer.

The counselling will then remain confidential. Both Anderson and Cooper stress the need for this, although the company pays a price by receiving few statistics on use of the programme.

The lack of statistics makes the payback difficult to determine. In the US, where EAPs have been accepted practice since the 1940s, statistics are easier to come by. The aerospace group McDonnell Douglas is often cited as a company which has seen tangible benefits.

The initial costs of setting up an EAP are likely to be incurred in commissioning an outside counselling firm or hiring one in-house and printing the promotional literature.

On average, hiring an external counselling service will cost a company between £15 and £30 per employee, depending on the complexity of the programme.

Companies must be prepared to invest in training management to spot potential problems, and appoint at least one person to oversee the day-to-day running of the programme.

Whitbread supports its EAP with posters, brochures and regular talks.

"It is no use launching a programme with great razzamatazz and expecting your staff to remember its existence," says Anderson.

"Like any other service, it needs marketing."

### The service may cover problems such as stress arising from difficulties at home or in the workplace

benefits which EAPs can bring. He claims that "the EAP has been a major factor behind our success in retaining managers".

Since introducing it on a trial basis in 1988 in conjunction with the EAP firm, Focus, Whitbread now offers the facility to all employees and their families. It estimates that about 5.5 per cent of its workforce uses the programme, with the most common concerns being work and family related.

Anderson believes the EAP has helped to improve the efficiency of employees and encourage a happier workplace. "If they have problems, they will be careless," he says. The company is also likely to experience problems of absenteeism and "general lateness". However, says Anderson, EAPs had helped "to nip such problems in the bud".

Mobil Oil, which uses the 24-hour service provided by Personal Performance Consultants, considers its EAP to be an essential element of its health



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## NEWS: UK

# Nadir 'most unlikely' to return and face trial

By John Mason and David Owen

MR ASIL NADIR is "most unlikely" to return to Britain to face trial this September if emerged yesterday, as the Conservative party pledged to return money donated to it by the fugitive businessman if it proved to be stolen.

In the first court hearing before Mr Justice Tucker since the former Polly Peck chairman jumped bail and fled to northern Cyprus, the Serious Fraud Office also ruled out any trial of Mr Nadir in his absence. However, the SFO announced its intention to continue criminal proceedings against Mr John Turner, the former Polly Peck group accountant facing false accounting charges.

Conservative party officials promised that the £440,000 donated to party funds by companies associated with Mr Nadir would be repaid if it were proved that the money had been stolen. They denied reports that Mr Nadir had

made other secret donations to party funds. In an unusual statement released last night, the party said it received a total of £440,000 over five years, with the last contribution made in March 1990.

"These donations were not made by Mr Nadir personally but by Polly Peck International plc or Unipac Packaging Ltd," it said. "We know of no other donations from Mr Nadir personally or from his companies." Asked about allegations that Mr Nadir might have hoped the donations would secure him a knighthood, party officials said no one had received an honour because they had given money to the Conservative party. The sale of honours would be a criminal offence, they said.

In a crowded Old Bailey courtroom, Mr Anthony Scrivener QC, Mr Nadir's barrister, said he had taken instructions from his client at 4pm on Monday. "It is most unlikely he will be here for trial in September. I do not propose to give reasons in open court," he said.

Accepting the position, Mr Robert Owen QC, for the SFO, ruled out any suggestion of putting Mr Nadir on trial to his absence.

The judge also adjourned consideration of the possible forfeiture of Mr Nadir's £2.5m bail sureties. The ownership of the £2m security put up by Mr Nadir himself is currently the subject of an action in the Chancery division of the High Court between Touche Ross, the administrators of Polly Peck, and the Imperbank, a Turkish bank once owned by Mr Nadir. The judge ruled that any decision on the £2m should be postponed until the High Court had ruled on the ownership of the money.

He also adjourned discussion of the possible forfeiture of the other sureties put up for Mr Nadir. These were provided by Mr Ramadan Guney, who stood a surety of £1m and Mr Nadir's ex-wife, Ayesha, who provided a £500,000 surety.

The trial of Mr Turner has now been put back until October 4th this year.

## Thorp N-waste plant set to win go-ahead

By Bronwen Maddox

THE THORP nuclear reprocessing plant at Sellafield should get the go-ahead provided that remaining environmental and legal questions can be settled. Cabinet ministers argued yesterday in their first formal discussions about the plant's future.

The government is likely to issue a paper in the next few weeks setting out the case for British Nuclear Fuels' £2.8bn plant, the most contentious environmental decision facing the government.

Mr Paddy Ashdown, leader of the Liberal Democrats, yesterday wrote to Mr John Major, prime minister, to express "grave concern at the national and international implications" of giving the go-ahead to Thorp, which would reprocess used nuclear fuel into reusable uranium and plutonium. The plant has taken nearly 10 years to build and is waiting for a government licence to start operation.

Thorp's future appears unlikely to be brought into the review of the nuclear power industry, due to start in the autumn. That would have postponed a decision - originally expected by BNF in January - for months.

Yesterday's Cabinet discussions, which Mr Major did not attend, focused on the potential earnings from the plant. BNF has argued that Thorp will earn £900m for the UK in the first 10 years of operation and that each week of delay costs £2m.

The final decision falls to Mr John Gummer, the new environment secretary, who is a known supporter of the nuclear power industry.

BNF responded angrily to full-page advertisements yesterday in UK national newspapers taken out by Japanese pressure groups. The group, Japanese Citizens concerned about Plutonium, claimed that the Japanese power utilities, Thorp's biggest overseas customer, no longer wanted the plant to go ahead because it was accumulating too much plutonium.

# One in five 21-year-olds innumerate

By John Authors

ONE IN FIVE of the UK's 21-year-olds are innumerate, while one in seven are illiterate, according to research by the Adult Literacy and Basic Skills Unit.

These people were classified "functionally" innumerate or illiterate after a 30-minute assessment of their skills, not because they could not read or add up at all, but because the requirements of industry have risen.

Mr Peter Davis, chairman of the unit, said: "Even very simple jobs are becoming more complex. Skills need to rise and the needs of employers are rising generally faster than the people's skills."

The unit suggested that an extra 25 per cent needed help with literacy, while an extra 33 per cent needed help with mathematics.

These questions were given to 21-year-olds to test numeracy. Calculators were allowed.

- Two items are bought for a total of £17.89. You hand over £20. What is your change? *Fifteen per cent got the answer wrong.*
- You buy a £4,900 car over three years. You must pay a 10 per cent deposit. What is the deposit? *Twenty-three per cent wrong.*
- You pay £4,410 over three years, paying monthly. How much do you have to pay each month? *Seventy-six per cent wrong.*

The survey, the most detailed of its kind yet mounted in the UK, broadly confirmed previous estimates that around 8m adults in the UK have difficulties with their basic skills, and that 40 per cent of teenagers entering further education needed remedial help with basic skills.

It showed that 21 year-olds with poor skills were much more likely to be jobless - 35 per cent of men with low literacy, and 25 per cent with low numeracy were unemployed, despite an overall figure for the sample of 15 per cent.

Mr John Patten, the education secretary, addressing the unit's annual conference, announced that he was granting an extra £250,000 for pilot schemes in family literacy. These mirror schemes to improve literacy in the US.

He pointed to the unit's finding that poor literacy and numeracy correlate strongly with poor basic skills in parents. Of those whose parents were in the lowest attainment group, without educational qualifications, 61 per cent had low literacy scores and 52 per cent low numeracy scores.

If parents' skills were improved, they would be more likely to pass them on to their children, Mr Patten said.

He also claimed that the adult literacy problem "shows why it is essential to press ahead with testing" in schools. He said: "We cannot afford to wait until our pupils become adults before we identify and tackle their needs."

Mrs Ann Taylor, Labour's education spokeswoman, said: "After 14 years of Conservative government the situation is clearly worsening. Government policy reinforces disadvantage."

The survey was conducted in 1991 by City University, who interviewed a representative sample of 1,650 people born between April 5 and April 11, 1970. It excluded dyslexics, people for whom English was not a first language and those with mental disabilities.

## Complaints from men of sex bias soar

COMPLAINTS about sex discrimination at work soared by nearly two-thirds last year, with men, for the first time, forming a large proportion of those claiming that companies are discriminating in their hiring policies.

The Equal Opportunities Commission, which published its 1992 annual report yesterday said there had been a 64 per cent increase over the previous year in complaints about workplace discrimination. The most common allegations concerned recruitment, terms and conditions, and sexual harassment.

Of 1,253 complaints about companies' hiring policies, 40 per cent were from men, said the EOC. Ms Valerie Amos, chief executive, said the recession had made men "much more aware of their rights".

## Chairman hits at male work culture

By Diane Summers, Labour Staff

THE MALE culture of long, unsociable working hours is damaging women's career prospects, says Sir Christopher Tugendhat, chairman of Abbey National.

The message was echoed by Mr John Collins, chairman and chief executive of Shell UK, who said that "jackets over chairs" for 18 hours a day could indicate that a company was working inefficiently.

Men in the UK work longer hours than males in any other part of the European Community, according to research by the Equal Opportunities Commission. Nearly 42 per cent of men work more than 46 hours a week, compared with 23 per cent in the EC as a whole.

In a speech on equal opportunities Sir Christopher plans to deliver to the Industrial Society's women's network tonight, he will say: "Up till now, the workplace has been predominantly male-oriented. There has been a perception that to succeed one has to be tough, to work long and erratic hours, and to be willing to travel, to stay away from home, to move house and even sometimes country. These requirements have tended to favour the hiring and promoting of men rather than women."

Mr Collins said: "I don't want to encourage a culture where people are rushing around trying to achieve too much to the detriment of the quality of their work. That starts with the chairman - I don't work weekends."

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## Britain in brief



## ICI refuses to apologise on CFC ad

THE Advertising Standards Authority upheld four out of five complaints brought by Greenpeace, the lobbying group, against Imperial Chemical Industries.

The complaints related to ICI's claims concerning the environmental impact of Klea 134a, its substitute for CFC gases.

The rulings are a significant embarrassment for the British group. It has invested more than £250m developing the substitute for CFCs.

Greenpeace complained ICI had exaggerated the extent to which ICI's CFC substitute - Klea 134a - would contribute to global warming. The claims were published last October in The House Magazine, distributed to British MPs and parliamentary staff.

In spite of the ASA rulings, ICI rejected Greenpeace's

demand for an apology to be published. It said the advertisement had been factually correct, any changes required were essentially semantic, and that the ASA had agreed the company had not intended to mislead.

The ASA, an independent watchdog over printed advertising standards, supported ICI's claim that the direct impact of Klea 134a on global warming was 90 per cent less than that of the CFC it replaces.

## Recovery cuts company funds

The short-term liquidity position of Britain's large manufacturing companies deteriorated in the first quarter of this year, indicating that growing manufacturing production was taking a toll of their readily available funds.

The ratio, measuring current assets maturing in less than a year as a share of liabilities that have to be repaid in less than a year, was the lowest since the first quarter of 1987.

The Central Statistical Office said the seasonally adjusted liquidity ratio for large manufacturing companies fell to an estimated 85 per cent at the end of March from 101 per cent in the previous quarter and a recent peak of 121 per cent in the first quarter of last year.

finance director of Prudential and chairman of the 100 Group of finance directors, told a Confederation of British Industry conference in London that there was a "huge labyrinth" people were struggling to find their way through.

"We are concerned about the volume of material being produced and the numbers of bodies becoming involved," he told the employers' organisation meeting.

"Many chairman and chief executives will begin to lose patience with all this. They will see time and energy being spent by self-interested bureaucracies producing sheaves of requirements. The good and the essential will be criticised along with the unnecessary and the unwieldy."

## Firefighters to meet over pay

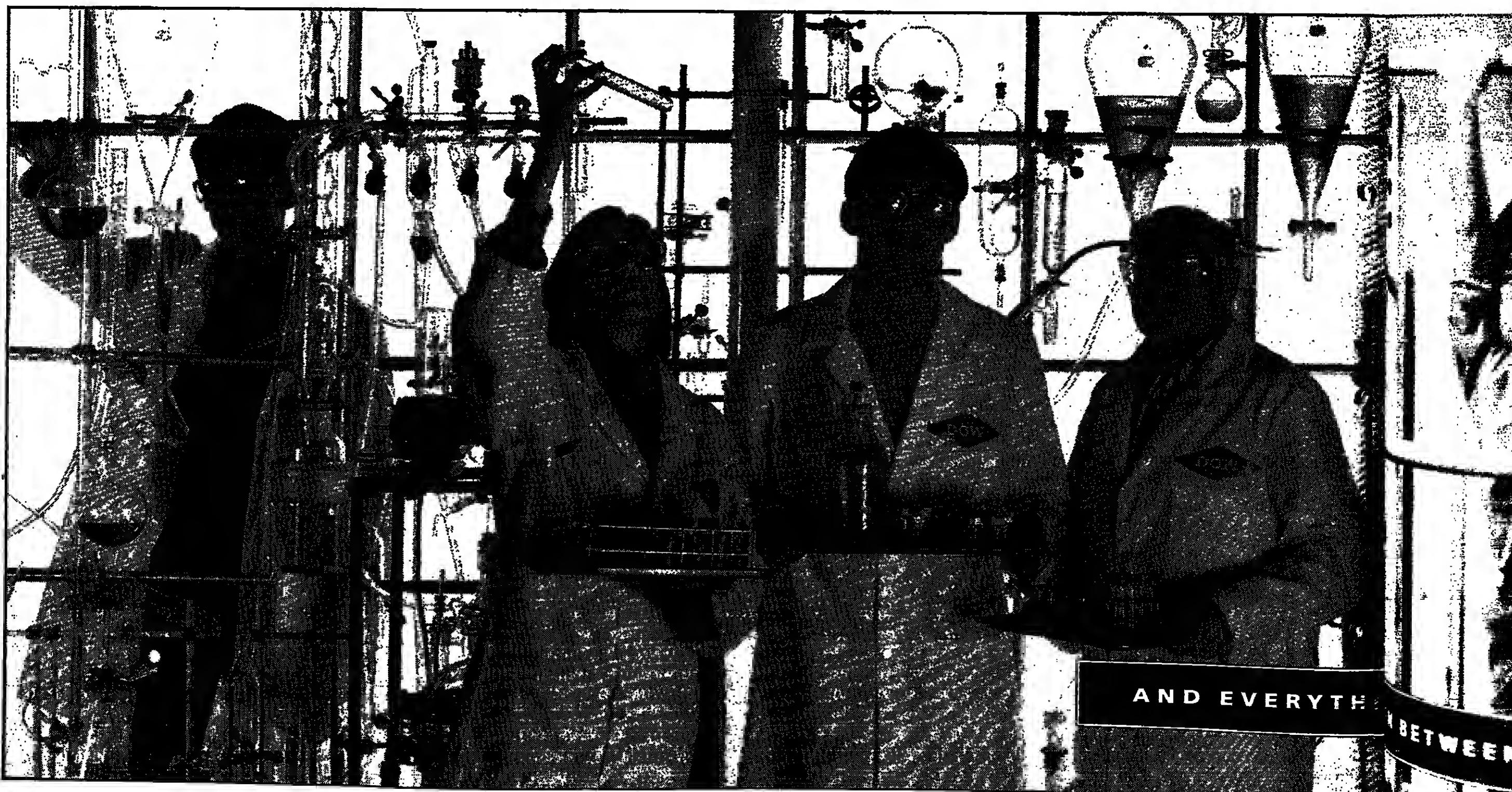
Local authority employers will meet representatives of the Fire Brigades Union later this month in an attempt to dampen the threat of industrial action if the firefighters pay formula is not restored next year.

Firefighters are one of the few groups of workers who have the power and, potentially, public support, to challenge the government's 1.5 per cent public sector policy.

## Audit reform a 'labyrinth'

Companies are being bombarded with far too many demands for reform of accounting and auditing, the chairman of a group of leading finance directors said.

Mr Michael Lawrence,



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## Debate urged on Bank independence

By Peter Norman

MR LEIGH-PEMBERTON, the outgoing governor of the Bank of England, last night called on politicians, academics and the City of London to consider how the Bank might be given more independence while staying accountable to parliament.

In a cautiously worded remarks, he suggested that thought should be given to devising a "form of accountability that might enable us to have the advantages of a more autonomous central bank within the constitutional arrangements of our parliamentary democracy".

In his valedictory speech to the City of London before stepping down after 10 years as governor of the Bank of England at the end of this

Governor calls for review of status for central bank, preserving its accountability to parliament

month, Mr Leigh-Pemberton said he recognised "along with the prime minister, that any change to the current status of the Bank of England could pose a dilemma in the UK with our long tradition of parliamentary accountability on the floor of the House by a Minister of the Crown."

But in his address to the Lord Mayor's banquet, he added: "I think all of us - politicians, academics, ourselves in the City - will need to consider how this dilemma might be reconciled."

Mr Leigh-Pemberton has made no secret of his belief that central bank indepen-

dence can help countries achieve low inflation.

In his remarks last night, he was taking up comments made by Mr John Major last week in the Commons in which the prime minister indicated that he might be in favour of central bank independence "were a way to be found to get the benefits... without the loss of parliamentary accountability."

However, last night, Mr Kenneth Clarke, chancellor, made clear in his "Mansion House" speech that he did not intend to rush into a debate about giving more autonomy to the Bank.

Meanwhile the Lord Mayor

of London, speaking at the banquet, called for a national levy on businesses to help pay for the dramatic premium increases needed to buy City firms insurance against acts of terrorism.

Lord Mayor McWilliams said: "If the country as a whole wishes to continue to benefit from the city's contribution to the national wealth surely it is right that the country should share some of the costs."

Guests at the Guildhall also heard that the London Stock Exchange is studying the creation of a "second level" market for smaller companies which would have lower listing

and regulatory requirements. Sir Andrew Hugh Smith, chairman of the stock exchange, said that finding ways to direct capital into smaller companies was an important task for the government and the Exchange.

The Exchange is said to have set up a panel to look at the creation of an alternative to the United Securities Market due to be closed in several years time.

Sir Andrew said that simple creation of a trading exchange for smaller companies was not enough to spur greater investment.

He said the government must alter the tax structure, which currently encourages private investors to invest in their own homes or in collective investment schemes.



## French look to Britain for medical tourist trade

By Alan Pike

FRENCH private hospital operators, at a meeting in London organised by their embassy yesterday, launched a bid to attract non-urgent surgical cases from Britain.

Hospital directors from four areas popular with British residents and tourists - Paris, Brittany, Nord Pas-de-Calais and Cote d'Azur - outlined to medical insurers the potential advantages of contracting for treatment across the Channel.

Price is the main advantage. A spell in a French hospital can often cost around 50 per cent less than the same treatment in the British private sector. The meeting heard of a British patient, quoted £2,100 for a cataract operation at home, who had the treatment in France for £1,100.

Mr David Ashdown, a director of Western Provident Association, Britain's third largest provident insurer, said lower costs in France were leading to some corporate clients seeking provision for treatment there in their policies. WPA had obtained French treatment for British patients "although we have sent hundreds rather than thousands so far."

British health insurers told the meeting they believed most clients welcomed the convenience of local treatment, and would be reluctant to travel to France in order to help contain their insurers' costs.

The British insurers suggested that the French hospital directors should target their marketing efforts at uninsured private patients in Britain. Many medical procedures now involve day-surgery or very short stays in hospital in these circumstances, a 50 per cent price difference could make "medical tourism" attractive to patients meeting their own bills.

The meeting also agreed that keen pricing could lead to co-operation between French hospitals and the National Health Service. But the issue is politically sensitive and, although NHS representatives were invited to yesterday's meeting, none attended.

## Manufacturing growth Business optimism fastest since May 1989 reaches six-year high

By Peter Norman

MANUFACTURING output recovered in April and is growing faster than at any time since May 1989, the government reported yesterday.

The Central Statistical Office said manufacturing production grew by a seasonally adjusted 0.7 per cent between March and April after a 0.3 per cent decline in March. This prompted CSO statisticians to revise upwards their estimate of the annual trend rate of growth from 4 per cent to 5 per cent.

All manufacturing sectors increased output in the three months to April compared with the previous three months, lifting the manufacturing production index out of its previous narrow range.

A breakdown of yesterday's government figures suggests that recovery is being led by investment, and possibly

exports rather than consumer demand.

April's figures were buoyed by strong growth in the output of metals, iron and steel and computers. Taking the latest three months figures, which the CSO's statisticians consider a better guide, the office reported strong increases in the production of cars, computers and aerospace equipment as well as materials for the building industry and packaging.

Production of cars and parts rose 8.1 per cent in the three months to April compared with the previous three months while output of computers increased by 14 per cent over the same period.

Consumer goods output was less buoyant, in spite of the sharp rise in car production. It rose 1.1 per cent in the three months to April compared with the previous period and was 1.3 per cent higher than a year ago.

By Gillian Tett

RETAILERS, wholesalers and motor traders are more optimistic about business prospects over the next three months than at any time since February 1987, a Confederation of British Industry survey said yesterday.

But with the pace of recovery in shop sales reported to have slowed in recent months, after a surge earlier in the year, the CBI employers' organisation warned that the strength of the upturn in consumer spending was still shaky.

Mr Nigel Whittaker, chairman of the CBI's distributive trades panel, said May was the fifth successive month in which retailers reported a year-on-year growth in sales. Yet the growth was below expectations and was partly due to aggressive discounting.

Meanwhile, motor industry sales

were slightly down in May, after rising during the first four months of the year.

Noting that the overall volume of sales remained at pre-recession levels, Mr Whittaker said: "Our experience is that retailers can get over-optimistic just as they became over-pessimistic at some stages in the recession."

According to the CBI's quarterly distributive trade survey, which measures business activity among 15,000 retailers, wholesalers and motor traders, 18 per cent more retailers reported a rise in sales than those who had seen falls in May. This balance was 17 in April.

Though this was higher than May last year, when the balance had been 14, it was below March's balance of 25, and retailers' previous predictions. The balance of retailers predicting growth for June is 34 - the most optimistic assessment since the beginning of the recession.

## Seven more public projects opened up to private investment

By Andrew Taylor, Construction Correspondent

THE government named seven more construction projects it would like developed jointly by private and public interests and published guidelines for companies wishing to fund and develop projects usually financed by the public sector.

The seven, expected to cost a total of several hundred million pounds, are all inner city projects in the Midlands, north-west and north-east England.

They include two in Coventry and two in Rochdale as well as schemes in Liverpool, Gateshead, Sunderland and London Docklands where 70 acres of land in the former Royal

Victoria dock are being offered for development.

Much of the land identified for development is owned by public authorities, such as local authorities (local government) or urban development corporations.

The environment department guidelines, announced by Sir George Young, construction minister, would

allow public authorities to hand over land free of payment to private developers in return for a share of future profits.

Local authorities would have greater freedom to use capital receipts to supplement investment by private sector companies.

Developers could receive funds from urban development corpora-

tions, urban partnerships and City Challenge budgets.

The initiatives form part of a growing government campaign to encourage private investment in public projects in order to cut the public sector borrowing requirement.

The latest schemes are in addition to a list of 21 costing more than £1bn

already announced by the former environment minister Mr John Redwood. These included a new airport for Sheffield, a power station for London's Docklands and a road tunnel under the River Tyne.

The government is thought to be close to announcing that private sector backers have been found for several of these projects.

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## NEWS: THE AMERICAS

# Slower US inflation eases fears on rates

By Michael Prowse  
in Washington

US consumer prices rose 0.1 per cent last month and by 3.2 per cent in the year to May, providing further evidence that inflationary pressures are moderating, the Labour Department reported yesterday.

Following last week's report that wholesale prices were flat last month, the figures all but eliminated residual fears on Wall Street that the Federal Reserve might opt for an early increase in interest rates.

President Bill Clinton said the inflation figures were part of a broader improvement in economic conditions. At a Washington press conference he said employment had risen noticeably in recent months and mortgage rates were at a 20-year low.

But he warned that the economy would not continue to do well unless Congress soon passed his deficit-cutting economic plan.

"The continuation of this trend depends on our ability to pass a strong economic programme through the Congress which reduces the deficit, increases investment in our future and is fair," he said.

## First quarter current account deficit declined to \$20.9bn

In a separate report the Commerce Department said the US current account deficit declined to \$20.9bn (£13.5bn) in the first quarter compared with \$23.7bn in the final period of last year.

The improvement - which occurred in spite of a rise in the merchandise trade deficit - mainly reflected an increased surplus on services and a rise in net investment income.

Most analysts are predicting relatively subdued inflation fig-

ures throughout the summer, reflecting an unwinding of distortions which pushed up the indices earlier this year. A sharp cut in tobacco prices has yet to be reflected in consumer prices.

If the figures remain encouraging, the Fed is unlikely to tighten monetary policy before the autumn in spite of its reported shift to a bias towards raising interest rates.

Compared with April's 0.4% increase the small overall rise in consumer prices masked big sectoral differences. Prices of energy and clothing dropped 1 per cent and 0.5 per cent respectively between April and May. But prices of many services rose sharply, with medical prices up 0.8 per cent following a 0.6 per cent gain in April.

The "core" consumer price index, which excludes the volatile components of food and energy, rose 0.2 per cent last month and by 3.4 per cent in the year to May.

# High hopes of Brazil's 'real plan'

By Christina Lamb  
in Rio de Janeiro

BRAZIL'S latest economic plan, the seventh in as many years and the second in just two months, has been met by a mixture of approval and disappointment, summed up by a cartoon on the front of yesterday's O Globo newspaper.

It shows Mr Fernando Henrique Cardoso, the finance minister, clad in white leather and bursting into a saloon with guns waving. But when he fires, only a disappointing little "boom" sound emerges.

Mr Cardoso describes the plan, unveiled on Monday night, as "the start of a new attitude". The *plano verda* (real plan) consists of a federal government spending cut equivalent to \$6bn and various revenue-raising measures aimed to "put the government's house in order".

The plan was welcomed by business as the first to begin attacking the public deficit, rather than interfering with the private sector. The main São Paulo stock exchange index rose 5.2 per cent by lunchtime.

But there was a general feeling that the measures did not

go far enough, and would not bridge this year's \$12bn budget deficit or reduce inflation, now above 30 per cent a month.

Mr Igor Cornelsen, director of Chartered West LB in São Paulo, said: "For the first time, we have a plan aiming at the heart of the inflationary process - the public accounts. However, while the diagnosis is right and the medicine good, it is nowhere near the dosage sufficient for a lasting cure."

The plan, which needs congressional approval, has six main points.

• Faster privatisation.

• A crackdown on tax evasion, with offenders to be jailed for the first time.

• Suspension of transfers to states and municipalities so as to make them start repaying the \$40bn-plus they owe the federal government.

• Stricter controls on state banks and auditing of the Banco do Brasil and the National Savings Bank, with possible job cuts and branch closures.

• A new cheque tax (awaiting congressional approval).

• Commitment to reduce interest rates.

Many economists said they would like to have seen holder



Brazil's disgraced former President Fernando Collor (above) was interrogated by the Supreme Court yesterday in the first stage of his trial on corruption charges. He was impeached last December over alleged involvement in a kickback scheme said to have made him \$51m (\$23.1m). He denied any wrongdoing and claimed the money was the remains of his campaign chest for the 1989 elections, along with a \$5m loan of gold from Uruguay. He said he knew nothing about "phantom" bank accounts through which alleged bribes were supposedly paid.

measures, such as the announcement of a major privatisation, the closure of bankrupt state banks or more autonomy for the central bank.

Mr José Luís Miranda, president of Banco Interatlântico, said: "This plan is just buying

time to set the preconditions for a successful shock."

The government has little scope for cuts because the constitution requires that much of its \$240bn budget go to local governments, interest payments and wages. The government can operate on just \$14bn, where it is cutting \$6bn.

Mr Cardoso's plan is seen as the government's last chance to curb inflation before elections next year. He says its success now depends on widespread co-operation.

# Smooth sailing towards court for new nominee

By Jurek Martin in Washington

JUDGE Ruth Bader Ginsburg yesterday began a round of courtesy calls in the Senate, amid guarded predictions that she could be confirmed as the next Supreme Court justice before the congressional summer recess.

Her nomination by President Bill Clinton on Monday has been greeted by widespread approval, no apparent obstacles to her confirmation have immediately surfaced.

Even pro-choice advocates in the abortion debate, recognising Judge Ginsburg's long career as an advocate of women's rights, have qualified their initial reservations about her stand on Roe vs Wade, the 1973 court ruling guaranteeing freedom of reproductive choice.

Ms Kate Michelman, head of the national abortion rights

league, said she looked forward to hearing Judge Ginsburg's explanation of a recent speech, in which she had said that the ruling may have prolonged political divisiveness. Ms Michelman said that the judge would represent an improvement on the attitudes of the man she is to replace at the court, Justice Byron White, a Catholic who generally voted for curbs on abortion.

Judge Ginsburg's reputation on the federal appeals bench as a consensus builder, an attribute complimented by Mr Clinton, seems to have reassured Republicans and Democrats alike.

It is generally assumed she will strengthen the divided court's centre, represented by Justices Sandra Day O'Connor, Anthony Kennedy and David Souter.

Even so, the process by

which the president arrived at her nomination, after an 88-day search, was still attracting criticism, as was his angry termination of a news conference after the first question had suggested he was prone to "a zig-zag quality" when making up his mind.

Mr Clinton said yesterday he had no animus towards the media and, at his latest news conference, offered an olive branch to the TV reporter who had so annoyed him.

As for print media, an editorial in the New York Times said he was "intemperate", the Washington Post blamed the "running commentary from the White House" on candidates for the court job, and the Wall Street Journal, in typical ideological vein, wondered about "the intellectual self-paralysis of both Bill Clinton and modern liberalism."

# Bayer offshoot faces \$2m pricing fine

By Bernard Simon in Toronto

A CANADIAN court has imposed a \$2m (\$1m) fine on Chemagro, a Montreal-based insecticide company owned by Bayer, the German chemicals group, for a price-fixing conspiracy.

This is the heaviest penalty ever imposed under Canada's competition law. It marks the first conviction under a provision which prohibits foreign-directed conspiracies designed to lessen competition in Canada.

The case involved sales of various chemical and biological insecticides used in forests. Chemagro pleaded guilty to several charges of colluding with other suppliers, both within Canada and abroad, to fix prices on supplies of these chemicals sold to provincial governments and the private sector.

Price-fixing was orchestrated outside Canada by Bayer and Sumitomo Chemicals of Japan. Sumitomo's case is still before the attorney-general.

# Cabinet filled in Venezuela

MR Ramón Velásquez, interim president of Venezuela, has appointed two prominent business figures to his cabinet, reports Joseph Mann from Caracas.

Mr Hernán Anzola, central bank president in previous administrations, is planning minister; Mr Gustavo Pérez Mijares is economic development minister. Mr Velásquez has now completed his 19-member cabinet. It retains five who worked under Mr Carlos Andrés Pérez, who is suspended from the presidency to face corruption charges.

# FDA warns Pepsi drinkers about cans

By Nikki Tait in New York

THE US Food and Drug Administration has warned US consumers that they should take precautions before drinking canned Diet Pepsi, after syringes were found in a number of cans in Washington state and Louisiana.

The product-tampering surfaced in the Seattle area, where three incidents were reported this week. Two cans containing syringes were subsequently found in New Orleans. A fur-

ther case, involving a can of Diet Coke, was reported in California yesterday, but there were suspicions this might have been a hoax.

Mr David Kessler, FDA commissioner, advised consumers to empty Pepsi into a glass or cup before drinking, while the company set up a hotline to deal with customers' queries. No-one at Pepsi was available to comment on the likely origin or extent of the problem. On Wall Street, Pepsi shares fell 5% to \$35 at lunchtime.

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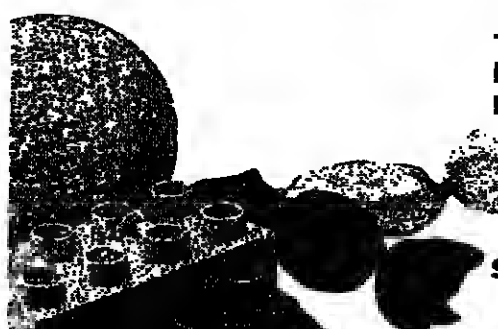
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## CONTENTIOUS US-GERMAN PACT

## Crossed lines over telecoms trade-off

By Quentin Peel and Ariane Genillard in Bonn

GERMANY'S negotiators with the European Community say the affair of their alleged "secret non-aggression pact" with the US over EC trade sanctions is an unnecessary, but embarrassing, storm in a teacup.

It illustrates how lines of communication within the Community can get tangled over years of complex negotiations. It also shows how dangerous megaphone diplomacy can be in the delicate art of trade negotiations.

There is even an element of sloppy drafting, or possibly mistranslation, thrown in to create further crossed lines between Bonn, Brussels and other member states. There is more than a hint that ministries in Bonn may have failed to talk to each other.

Last week the European Commission demanded an explanation from Bonn for its apparent refusal to implement trade sanctions involving government telecommunications contracts against the US, unanimously agreed by the 12 member states on June 8.

The trade sanctions are taken - affecting about Ecu15m (£11.85m) of contracts - but the principle of common action is seen in Brussels as paramount.

Mr Günter Rexrodt, German economics minister, retorted

that Bonn would not apply the sanctions as it was covered by an "opt-out clause" written into the June 8 decision. Brussels professed amazement, and Paris suspected treachery by its closest EC ally.

The story goes back to October 1990, when Article 29 of the EC's Utilities Directive was first agreed, giving a 3 per cent price preference for EC companies when bidding for any government contract.

Germany insisted then a clause be inserted stating this move was "without prejudice to [existing] obligations of the EC and its member states towards third countries."

A Bonn official said: "We stated very clearly at the time that this meant someone who has a treaty with a third country does not need to put this article into effect."

The move already contained the seeds of future conflict: some English translations said the article would apply "notwithstanding" existing obligations, instead of "without prejudice to" them: the German word *unbeschadet* can mean both.

The second step came in the wings of the OECD ministerial meeting in Paris, when Mr Rexrodt stopped to chat to Mr Mickey Kantor, the US trade representative. "It was simply an informal conversation in the sunshine before lunch," they say in Bonn. "This was in no way negotiations."

Nonetheless, Mr Rexrodt had a point to make. The US was not implementing its own sanctions against Greece, Spain and Portugal, because they were not implementing Article 29. So why was Washington imposing sanctions on Bonn?

"Mr Kantor said he didn't know we were not implementing the article. They went away and checked and found it was true," says Bonn. "So Mr Kantor agreed we would also be excluded [from sanctions]."

The trouble was, he went straight back to Washington, and announced the "deal".

The third step came on June 8, when EC foreign ministers agreed without debate to impose EC sanctions on the US on a handful of public procurement contracts. In retaliation for the equally token gesture by Washington to restrict EC access to about \$19m (£12.3m) of contracts there.

The same clause was inserted in the decision which was in the original Article 29: it was "without prejudice to existing obligations".

"We believed everybody knew what that meant," a Bonn official said yesterday. "But the others did not realise that it applied to Germany."

Finally, the US asked for the German agreement in writing, and Bonn has balked at that. It will only give such a statement "in agreement with the Commission". In the current atmosphere, that seems unlikely.

## Beijing Jeep is out of the thicket

Tony Walker on one of the first, and therefore 'model', investments in China

## 外商投资

MR FRANK Krebs, head of Chrysler's Jeep project in China, is in an expansionary mode, as the American might say. Having weathered early storms, the Chrysler joint venture is set for larger production runs, fresh models and possibly a new "greenfield" works.

The well documented Beijing Jeep saga, marked something of a watershed for foreign investors in China in the early phase of the country's economic reform, although many of the problems that bedevilled the AMC project have certainly not been eradicated.

Because Beijing Jeep was one of the first joint manufacturing ventures in China it achieved "model" status. This is probably what helped save it in the end: desperate to attract foreign investment China could not afford a "model" failure.

Mr Krebs is cagey about profitability, saying merely that Beijing Jeep has been profitable for much of its nine years, and he views the period ahead as promising in a country where demand for vehicles of all sizes and dimensions is growing by leaps and bounds.

But problems persist, not least access to foreign exchange to pay for kits and imported machinery at a time of rapid expansion for the Chrysler-Beijing Auto Works joint venture (BAW) is owned by the Beijing municipality.

Chrysler, which took over AMC in 1987, the year after faltering production began in Bei-



Zhu helped save venture

jing, is anxious to keep building up its stake in the local joint venture to 50 per cent from the present 43 per cent. AMC with an original investment of \$8m plus technical assistance took an initial 23 per cent share.

Management problems have eased, Mr Krebs says, with a good working relationship at senior level. However, Chinese middle managers, used to operating in a strictly hierarchical and authoritarian system, are loath to show initiative lest they be criticised for possible mistakes.

Another problem, not anticipated by AMC and Chrysler in the early days, is job mobility. Previously, it was rare for Chinese workers and managers to change jobs since there was little scope for competition for talent. Now, a competitive market for skilled labour is developing and Chrysler, like every other joint venture partner, is caught up in it. "We tend to gold-plate people and they leave us," says Mr Krebs ruefully.

Beijing Jeep produces a range of four-wheel drive vehicles including copies of primitive Russian-designed military vehicles, plus the Jeep Cherokee which is proving a hot seller with supply barely keeping pace with demand. The company is scheduled to produce 37,500 Beijing Jeep 202 models this year, and 22,500 Cherokees compared with 20,000 in 1992.

Target production for 1995 is 100,000 vehicles for both models, but, as Mr Krebs observes, the size of the existing plant is placing limitations on growth. He believes that in time Beijing Jeep will be obliged to look at establishing a new facility, possibly in southern China at a cost of up to \$300m.

Sensing an era of greater competition is dawning, Beijing Jeep is, for the first time, devoting resources to advertising. In the first three months of this year it spent more on marketing than it did for the whole of 1992.

The company has a network of about 20 dealerships and deliveries of spare parts are being speeded up. Before, distributors would be obliged to drive to Beijing every two or three months from outlying provinces to pick up supplies. Now parts are being delivered "every week or so" even to remote areas.

Chrysler, which fell into the China market with the AMC takeover, is congratulating itself for having a foothold in what is likely to prove a lucrative, if highly competitive area.

With just 7m vehicles spread thinly among China's 1.1bn population, and with more than 92 per cent of the country's roads unpaved, the future for Beijing Jeep would seem to be secure, even buoyant.

*\*Beijing Jeep: The Short Unhappy Romance of American Business in China. By Jim Monn. Simon and Schuster, 1989.*

## Kantor cool towards renewal of sanctions law

By Nancy Dunne in Washington

MR Mickey Kantor, US trade representative, is urging Congress to resurrect the administration's "fast-track" trade negotiating authority without tacking on to the legislation a renewal of Super 301, a provision much despised by the

country's trading partners.

Super 301 requires the trade representative to list "unfair" trading countries and negotiate away their trade barriers. It was used sparingly in 1989 and 1990 - against Japan, Brazil and India - and then it expired.

The deadlines imposed by Super 301 requiring action, or

a waiver of action on grounds of national interest, can reduce flexibility for trade officials. They have said that the imposition of sanctions during key negotiations such as the Uruguay Round could be highly damaging.

President Bill Clinton strongly endorsed a renewal of Super 301 during the election

campaign last year, and Mr Kantor has not retreated from that position. However, his endorsement at a hearing on Monday was unenthusiastic.

Although promising to "work with" Congress on Super 301 at another time, he was quick to imply that the administration was moving aggressively without its help.

Senator Max Baucus, chairman of the Senate International trade sub-committee and a strong supporter of Super 301, told Mr Kantor he wished the representative would "more strongly embrace" the provision. Would it not give him "additional negotiating leverage" in the Uruguay Round?



Rolls-Royce Tay engines power the new, 79-seat Fokker 70 airliner

## Fokker launches regional jet with orders won

By Paul Betts, Aerospace Correspondent

FOKKER, the Dutch aircraft manufacturer 51 per cent owned by Deutsche Aerospace, yesterday launched the production programme for its new Fokker 70 regional jet, having won \$400m (£262m) of orders from Indonesia for the new 79-seat airliner.

The launch orders from the Indonesian carriers Sempati Air and Felita Air Services, involving up to 20 aircraft, will also provide £70m of business for Rolls-Royce, the UK aero-engine group whose Tay 620 engines power the new Fokker twin-jet airliner.

The Fokker 70, which made its maiden flight in April, is a smaller derivative of the Fokker 100, also powered by Rolls-Royce Tays. The fuselage and tail section of the aircraft are produced by Deutsche Aerospace, the wings by Short Brothers of Belfast.

The new Fokker aircraft will intensify competition in the regional jet market, which has been badly hit by the financial troubles of smaller airlines but is now expected to recover strongly by 1998-2000.

It will compete directly against Avro International, the recently established regional jet joint-venture company of British Aerospace and Taiwan Aerospace.

The BAE-Taiwan venture, also unveiled at the Paris Air Show, plans to develop a lighter version of its RJ70 regional jet, to make it more competitive with the new Fokker 70.

Rolls-Royce, whose engines have traditionally powered Fokker jets, is now also trying to break into the Avro RJ market by negotiating with Taiwan Aerospace its participation in the BR700 regional jet engine programme with its German partner BMW.

In the large end of the commercial engine market,

Rolls-Royce has also expanded at the air show its risk-sharing partners on the \$400m development programme of its high-thrust Trent engine. Lucas, UK aerospace and car components group, is taking a 3.5 per cent share in the Trent programme.

Bernard Simon reports from Toronto: Air Canada and McDonnell Douglas are to study the feasibility of modernising the Canadian carrier's ageing fleet of DC-9 jets as an alternative to replacing them with new aircraft.

Air Canada operates 35 DC-9s, and predicts that the modernisation would add 15 years to their life. The work would include new engines and avionics, and extensive re-wiring. McDonnell Douglas would provide new warranties for the aircraft.

The two companies said yesterday that they might open the programme to other airlines wanting to extend the lives of their DC-9s.



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## NEWS: INTERNATIONAL

# UK cabinet group to discuss HK policy

By Simon Holberton  
in Hong Kong

MR John Major, Britain's prime minister, has called a meeting of his cabinet's Hong Kong committee for July 1 amid signs that the British government is losing patience with China over talks about the colony's political development.

Mr Chris Patten, Hong Kong's governor, will fly to London at the end of the month for the meeting, which officials say is likely to prove significant in determining the British government's policy towards Sino-British talks.

According to one official: "What ministers want to know is: Are these talks a total waste of time?"

Mr Patten's assessment is seen as pivotal in shaping the

government's attitude towards the talks. The first four rounds of negotiations produced no significant developments and in the session which ends today little progress appears to have been made.

A Foreign Office official said yesterday that by the time the cabinet sub-committee meeting was held a sixth round of talks might have taken place and "by then we should have an idea of where they are going or not". The objective of the cabinet committee agreed to at its meeting in April was for Sino-British talks to be concluded by the end of July. "This timetable either has to be reinforced or shifted," the official said. "The committee is unlikely to approve of policy being made by a process of drift."

Next month's meeting will

bring together Mr Major, Mr Douglas Hurd, foreign secretary, Mr Malcolm Rifkind, defence secretary, and Mr Michael Heseltine, trade and industry secretary.

It comes at a time of increasing restiveness among Hong Kong pro-democracy groups who feel that Mr Patten is backtracking on his commitment to broaden democracy before Britain returns sovereignty to China in 1997.

The committee, which last met at Easter when Mr Patten was in London, is however likely to approve the continuation of talks until the autumn and then decide whether to continue or pull out and present Mr Patten's legislative programme to the Legislative Council, Hong Kong's law-making body.

# Bankruptcy rate falls in Japan

By Charles Leadbeater  
in Tokyo

THE FIRST fall in Japanese corporate bankruptcies for almost three years yesterday added weight to claims that the Japanese economy is nearing the bottom of its two-year downturn.

Corporate bankruptcies in May fell by 3.9 per cent from the same month last year to 1,113, according to a monthly report by the Teikoku Data Bank, a private research group. The report said the decline in the bankruptcy rate, the first for 32 months, was a tentative indicator of a moder-

ate pick-up in the economy. If May's decline in bankruptcies does mark the bottom of the recession it means Japanese business will have escaped with far fewer failures than during the mid-1980s.

During the weak economic patch of the mid-1980s caused by the yen's sudden appreciation against the dollar, the business failure rate rose to about 20,000 a year. During this downturn the failure rate has not risen above 14,000 a year.

The Teikoku report will fuel the debate within Japan about whether the recession is bottoming out. The government's Economic Planning Agency

last week announced the economy had hit the bottom, a claim which the industry ministry has fiercely disputed and the Bank of Japan failed to support in its quarterly economic survey published last week.

However, the fall in the overall rate of bankruptcies masks important changes in the causes of business failures. The number of bankruptcies caused by the recession rose by 33 per cent to 576, while bankruptcies caused by financial factors linked to the collapse of the bubble economy fell markedly.

An ominous sign was the

first appearance since 1987 of bankruptcies caused by the yen's appreciation against the dollar, which is hitting Japanese exporters. There were three bankruptcies in May caused by the yen's rise.

The recession is increasingly claiming larger companies, such as Hanko Kogyo, the construction equipment maker which failed recently. The combined liabilities of bankrupt companies rose by 15.7 per cent in May to ¥661.3bn (¥4.1bn) compared with the same month last year. The average debts of bankrupt companies were ¥694m, about 21 per cent up on the previous year.

Other economic indicators published yesterday supported the Bank of Japan's caution about the economy as long as private consumption and corporate investment remains subdued. Sales at Tokyo department stores were 9.3 per cent down in May compared with the same month last year, the 15th consecutive monthly fall.

Private sector machinery orders in April fell 28.8 per cent from the previous month to ¥786.9bn, a fall of 18.5 per cent from April last year. This brings to an end a brief revival in machinery orders in the early months of the year.

# Technical factors cut trade surplus

By Charles Leadbeater

JAPAN'S customs-cleared trade surplus dipped slightly in May largely as a result of temporary technical factors, according to figures released by the Finance Ministry.

Nevertheless, the 0.1 per cent fall in the surplus in May, to ¥7.7bn (¥5bn), will be welcomed by the Japanese government as evidence that the surplus is reaching its peak after growing for almost two and a half years.

The fall may help to defuse tensions between the Japanese and US governments during talks in the next few weeks about measures to reduce the surplus. The talks are due to come to a

head before the Tokyo summit of Group of Seven leading industrialised countries in the first week of July.

However, news of the decline did little to stem the continued rise of the yen against the dollar. In Tokyo trading the dollar closed at ¥105.03, down from its Monday close of ¥105.20, after it had briefly touched a new low of ¥104.83 in the morning.

The yen's strength hit the Tokyo stock market Mikiel index which fell by 351.47, or about 1.7 per cent, to 20,045.88. The market's fall was a reflection of the damage a higher yen may do to the profits of Japanese exporters.

The yen's continued strength, com-

bined with the stock market's fall close to the critical 20,000 mark, will increase pressure on the Bank of Japan to cut interest rates.

Mr Yasushi Mieno, Bank of Japan governor, on Monday ruled out an interest rate cut to prevent the yen rising. However, the central bank announced yesterday it would hold a meeting of its regional branch managers on July 5 and 6. These meetings have paved the way for a cut in the discount rate in the past.

Mr Tadashi Okuda, chairman of the Federation of Bankers' Associations, called on the monetary authorities to make "timely and flexible" responses to the yen's surge after warning that the

stronger yen threatened to dash hopes of an economic recovery.

The drop in Japan's merchandise trade surplus was because of a faster growth of imports. Exports in May rose 5.6 per cent from the same month last year to ¥26.85bn, while imports rose 8.2 per cent to ¥19.12bn.

Japan's trade surplus with the US fell by 2.1 per cent from the year before to ¥2.7bn.

Finance Ministry officials said the fall was because of fewer working days in May compared with the same month last year, as well as longer vacations taken during the "golden week" holidays. These cuts helped to reduce exports.

# Cambodian secessionist leader seeks refuge

By Victor Mallet  
in Phnom Penh

PRINCE Norodom Chakrapong, leader of a five-day-old Cambodian secessionist movement, took refuge in Vietnam yesterday in a move which apparently heralds the end of his "autonomous zone" in the east of the country, United Nations officials said.

A UN military observer saw the prince and his followers drive over the border in a convoy of 20 vehicles and hand their weapons to Vietnamese border guards. Prince Chakrapong, a deputy prime minister in the communist government installed by Vietnam in 1979, had announced the secession in protest at the outcome of the UN-organised election last month.

The ruling Cambodian People's party won only 51 of the 120 seats in a new constituent assembly, compared with 58

taken by the royalist opposition party Funcinpec led by Prince Ranariddh. Prince Chakrapong's estranged half-brother, the CPP said it was the victim of "massive irregularities" in the polling, but UN and international observers certified the election as free and fair.

Prince Chakrapong's attempt to defy the UN and fragment the country further (the Khmer Rouge runs its own zone on the Thai border) was undermined by the evident lack of public support.

UN officials, foreign diplomats and Cambodians yesterday welcomed the retreat of Prince Chakrapong, who has long been regarded as one of the most unsavoury members of the corrupt communist administration.

Their optimism was tempered, however, by the knowledge that the CPP leadership in Phnom Penh initially winked at Prince Chakrapong's

stance and is still challenging the results of the election. Hundreds of terrorised Funcinpec party workers are reported to have fled to Phnom Penh from the east.

Members of the new assembly, convened on Monday, are supposed to write a constitution and form a new government within three months.

Mr Hun Sen, the prime minister, is now dissociating himself from the secessionists and was credited on Monday with persuading his brother Mr Hun Neng, governor of the populous province of Kompong Cham, to bring it back under central government control.

Mr Uch Kiman, a government spokesman, said yesterday that four of the seven provinces in the "autonomous zone" were not even aware that they had been included.

Prince Ranariddh portrayed the issue as a political dispute rather than an argument between princes.

# Peace talks hear of Clinton-Assad letters

By Jurek Martin in Washington

THE TENTH round of the Middle East peace talks began in Washington yesterday with the disclosure that President Bill Clinton and President Hafez al-Assad of Syria have exchanged letters, presumably on the future status of the Golan Heights.

A senior US official returning from Europe with Mr Warren Christopher, the secretary of state, was quoted as saying that the exchanges were "very substantive," but declined to furnish details.

They may cover possible US guarantees that the Golan Heights, if returned to Syria, not be used as a base for attacks on Israel, as well as how much territory Israel might be persuaded to give up.

The chief Syrian negotiator, Mr Muwaffiq al-Atia, insisted yesterday that Israel must surrender all the Golan Heights, or accept responsibility for the breakdown of the peace talks.

His Israeli counterpart, ambassador Mr Itamar Rabinovich, said Israel had told Syria it accepted "the element of withdrawal" as part of the peace-making process but would not address "the extent of the withdrawal until certain questions are answered."

Bilateral contacts between the US and other delegations have been frequent. Mr Christopher conferred in Vienna, where he addressed the UN human rights conference, with the Syrian, Egyptian and Israeli foreign ministers.

# Abiola claims Nigerian win

NIGERIANS waited anxiously yesterday for official confirmation that business baron Mr Moshood Abiola had won the country's presidential election, Reuters reports from Lagos. The National Electoral Commission said it was carefully checking results from Nigeria's 30 states before announcing the winner of Saturday's poll.

Leading newspapers were in no doubt, reflecting victory claims by Mr Abiola and his Social Democratic party. "Abiola surges ahead," said the Daily Times, Nigeria's biggest-selling newspaper.

However, his opponent, Mr Bashir Tafa Tafa and his National Republican Convention yesterday called for the results of the poll to be cancelled because it had been "massively rigged," according to state radio.



Gen Aided clenches his fists as he speaks to the press at his Mogadishu headquarters on Monday about UN raids on his arms dumps

# Somali leader may stand trial, says UN

By Michael Littlejohns, UN  
Correspondent, in New York

GENERAL Mohammed Farah Aided, the Somali warlord accused of directing an ambush that led to the deaths of 23 Pakistani United Nations soldiers, will be arrested and brought to trial if an official inquiry confirms the allegations, the UN said yesterday.

Mr Kofi Annan, under-se-

cretary general for UN peacekeeping operations, told reporters: "Whoever is found responsible will be apprehended, whether general or foot soldier."

The investigation ordered by the UN Security Council following the June 5 incident was continuing and if Gen Aided were held responsible, an attempt would be made "to bring him in".

At a press conference called

to explain the bloody incident last weekend in which many Somali civilians were killed by Pakistani troops, Mr Annan said that non-lethal riot control methods had been considered. "The situation 'got out of control' when Somali demonstrators tried to tear down a UN barricade."

The Italian government said yesterday it had received assurances that tighter con-

trols would be placed on the Pakistani peacekeepers in Somalia, Reuters adds.

Mr Fabio Fabbrì, defence minister, who was in Mogadishu yesterday, "has received precise assurances on the use of Pakistani forces in a role and with equipment more in keeping with the demands of the situation," Mr Beniamino Andreatta, foreign minister, told parliament.

# Poppies bloom amid Pakistan's economy and politics

Narcotics make for a black economy half that of the official one, writes Stefan Wagstyl from the Khyber Pass

WHEN drug dealers operating in the Khyber Pass felt threatened by a Pakistani government road-building scheme earlier this year, they attacked the construction crews with machine-guns, mortars and a heat-seeking missile.

Nine men were killed in the raids which were meant to prevent the government from bringing an all-weather road to the remote Tirah Valley, the home of poppy fields and scores of heroin laboratories.

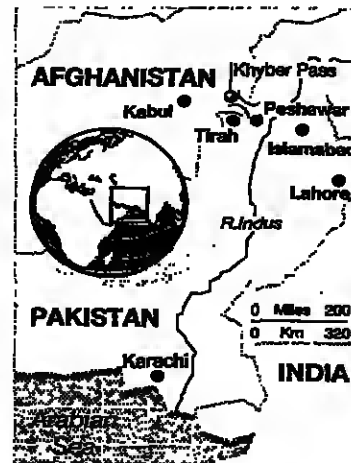
Officials have stopped the building work while they try to persuade local village chiefs to guarantee the workmen safe passage.

The tribesmen of the Khyber Pass have never taken kindly to outsiders on their territory, as the British colonial rulers discovered a century ago. But today the weaponry at their disposal enables them to project their power beyond the mountains lying on the Pakistan-Afghanistan border.

While the poppies are mostly grown on the Afghan side of the border, the profits accrue to dealers who are mainly Pakistanis. Their fortress-like homes dot the road along the Khyber Pass. Outside there are watchtowers, inside, opulent houses decked in marble.

The dealers' influence reaches into Afghanistan through the guerrilla commanders who need drugs money for buying arms and ammunition. It also penetrates far into Pakistan, distorting the country's economy and politics.

The shock of violent incidents



The tribesmen preferred marijuana, and heroin was virtually unknown until the advent of war in Afghanistan in 1979.

But in the last decade a region which encompasses eastern Iran, Afghanistan and Pakistan has become the world's second largest producer of illegal opium with an estimated 1,115 tonnes last year, mostly in Afghanistan, according to US government figures. This is well short of the 2,500 tonnes produced in south-east Asia, including Burma's Golden Triangle. But south-east Asian output is falling, albeit slightly. Afghan farmers are rapidly increasing their production. This year's crop is estimated to be 20 to 50 per cent higher than 1992's.

The initial stimulus for increasing output came from a crackdown on opium-growing in Middle Eastern countries, including Turkey and Iran. The war in Afghanistan then prompted anti-Soviet mujahideen guerrillas to raise production and to invest in heroin laboratories to increase their revenues to buy arms. The fight against communism was seen as so important that officials in Pakistan, from where many mujahideen were supplied, turned a blind eye to the proliferation of heroin.

Despite the Soviet withdrawal, the mujahideen groups still need money because they are now fighting each other. Elsewhere in the country, peace has permitted farmers to go back into their war-ravaged fields.

Mr Habibullah Khan, a farmer in



Poppy growers in eastern Afghanistan: a centuries-old practice now feeds into a sophisticated network

eastern Afghanistan, says villagers have no choice about growing poppies since they bring ten times as much money as other crops. "This year we planted more poppies than before. Next year we will plant even more," he says.

Moreover, the collapse of the Soviet Union has eased the drug smugglers' transport problem. The traditional route has been south through Pakistan to the port city of Karachi and from there by air and

by boat to the rest of the world. But the borders of the former Soviet republics in central Asia have opened up to trade - so trucks laden with legitimate goods such as dried fruit are being used to smuggle heroin into Russia and from Russia into western Europe.

Dealers in the tribal areas lying on the border with Afghanistan dominate the trade. Under agreements dating back to Pakistan's birth as an independent state in

1947, the government's writ does not run in the tribal areas. Instead, they are administered by tribal chiefs, who choose which laws, if any, they will apply.

Plentiful handouts from the drug dealers ensure that anti-narcotics laws are enforced weakly. If at all, Mr Altaf Ghanbar, editor of the Muslim, a leading Pakistani newspaper, alleges that almost all the politicians representing the tribal areas in the national assembly in

Islamabad are drug smugglers. A frequent target of such accusations is Mr Haji Ayub Afridi, a former truck driver turned millionaire businessman and politician who owns the largest of the forts on the Khyber Pass. Mr Afridi's house was raided two years ago in the course of a drugs investigation. But neither then nor later was any evidence found linking him to narcotics smuggling. He denies any involvement in the trade.

A study commissioned by the US Central Intelligence Agency this year found that heroin trading had penetrated "the highest political circles" in Islamabad and named as a suspected drug smuggler Mr Sohail Zia Butt, a brother-in-law of the prime minister, Mr Nawaz Sharif.

Alleged dealers are also active at the top of the business community in Karachi. There are many suspected top drug dealers in investigators' files but officials cannot act for lack of firm evidence. Western anti-drugs experts report that evidence is lacking because of the drug lords' political protection. "They are allowed to work behind screens," said one.

Mr Ralph Secombe, Pakistan field adviser for the United Nations drug control programme, says the whole country is already paying the price for permitting drug dealers to flourish. "Pakistan has over 1m addicts. That's 6m people who are affected if you include their families. But it's 100m who are suffering from the political and economic consequences."



## Fresh effort to restart Bosnia talks

By Frances Williams in Geneva and Laura Silber in Belgrade

INTERNATIONAL mediators for former Yugoslavia met today in Geneva in an increasingly desperate search for workable political solutions that will end the violence in Bosnia.

Lord Owen, for the European Community, and Mr Thorvald Stoltenberg, for the United Nations, said yesterday they expected the meetings to pave the way for a renewed international conference on ex-Yugoslavia, probably in Geneva, which would bring together the participants in last August's high-level London conference.

President Slobodan Milosevic of Serbia, Croatian President Franjo Tudjman, President Momir Bulatovic of Montenegro and Mr Alija Izetbegovic, the Bosnian president, will meet together with the mediators. Mr Izetbegovic has so far refused a joint meeting with Mr Radovan Karadzic, the Bosnian Serb leader, and Mr Mate Boban, leader of the Bosnian Croats.

Lord Owen said yesterday that there was no alternative to the Vance-Owen peace plan for Bosnia on the table, though it was clear there would have to be "adjustments". "An overall cessation of hostilities will only come in the context of an overall (political) bargain," he said.

Today's encounters will also discuss the potentially explosive situation in Serb-held Croatia. Relations between Serbia and Croatia "hold the

key to stability and peace throughout the region," Lord Owen told reporters.

In Sarajevo, the military commanders of the three warring communities agreed on a ceasefire, to take effect today, as fighting intensified throughout the republic.

Previous agreements, however, have collapsed almost immediately and there was little optimism that the latest one would last.

Even as the three military chiefs met at Butmir airport, fresh clashes were reported on most battle fronts.

Sarajevo radio said at least eight people were killed in Gorazde, a besieged UN-safe area in south-eastern Bosnia.

Serb forces have been on the offensive for three weeks near the town, which is the last Muslim stronghold in the region. Bosnian Serb forces are reportedly poised to seize it, flagrantly violating its UN-protected status.

The military summit took place after Mr Boutros Boutros Ghali, the UN secretary general, recommended the deployment of at least another 7,500 troops to Bosnia.

But western diplomats yesterday worried that the additional forces and heavy equipment would not lead enough muscle to the 9,000 troops already on the ground in Bosnia.

Some 9,000 peacekeepers assigned to protect UN relief convoys have failed to stem the bloodshed and have been constantly undermined by Serb and Croat forces seeking to block the passage of emergency food aid.

## Russia criticises military mandate

By Patrick Blum in Vienna

RUSSIA is willing to send troops to protect Muslim enclaves in Bosnia provided there is a clear framework and mandate from the United Nations security council, Mr Andrei Kozyrev, the Russian foreign minister, reiterated yesterday in Vienna.

Russian troops, however, would not be sent to "besieged fortresses under fire". Mr Kozyrev suggested a new UN Security Council resolution would be needed to define objectives clearly.

In a separate statement made at the UN World Conference on Human Rights taking place in the Austrian capital, Mr Kozyrev also warned of the growing dangers of nationalism and of adopting a selective



WORLD CONFERENCE ON HUMAN RIGHTS  
Kozyrev: promised troops

approach to human rights. "We cannot accept references to the non-interference principle... when violations of individual rights and freedoms are involved," he said.

He warned that policies of ethnic cleansing, as had happened in the former Yugoslavia, posed a threat to democracy worldwide.

He said the lack of attention to the rights of national minorities "risks damaging the Baltic region and turning Europe into a zone of... lower and double standards."

In a day dominated by developments in eastern and south-eastern Europe, conference delegates also heard a call for UN action in the Yugoslav province of Kosovo.

Mr Sali Berisha, president of Albania, called for the UN to place Kosovo under UN control and declare it a neutral zone.

He warned of the growing dangers of war stemming from Serbian actions in Kosovo, whose population is 95 per cent ethnic Albanian. He called for further tightening of sanctions against Serbia.

The conference unanimously endorsed an appeal by Mr Haris Silajdzic, the Bosnian foreign minister, for immediate action by the UN to end atrocities in Bosnia.

In an emotional statement that galvanised delegates, Mr Silajdzic criticised the lack of adequate international reaction in the face of increasing atrocities in Bosnia. He called on the conference "to stop the genocide in at least one town".

He was referring to the Muslim enclave of Gorazde, which has been declared a "safe area" by the UN but which is besieged by Serb forces.

## Azeris recall Brezhnev era leader

By Steve Levine in Baku, Azerbaijan

AZERBAIJAN'S Brezhnev era KGB and communist party chief, Mr Heidar Aliyev, made a remarkable political comeback yesterday, winning election as chairman of the former Soviet republic's parliament.

The election makes Mr Aliyev, 70, nominally the second most powerful leader to Azerbaijan President Abulfaz Elchibey.

But diplomats and other foreign observers in Baku, the capital, believe that the wily Mr Aliyev has carved himself out a significant chunk of Mr

Elchibey's power and that new elections are likely. Given the present despondent political mood, Mr Aliyev probably would be Azerbaijan's strongest presidential candidate.

The political and economic deterioration was demonstrated when Baku newspapers yesterday announced that Mr Elchibey had postponed complete introduction of Azerbaijan's new currency, the manat.

The government, which began circulating the manat on June 2, had announced that the rouble would be invalidated on June 15, but the move now has been delayed at least until July 1. "We need to wait

until the situation stabilises. As soon as that happens, the reforms will take place," said Mr Elman Rustamov, deputy chairman of the ministry of foreign economic activity.

On Monday the US embassy recommended that American nationals leave the country, and many foreign businessmen, including oil company employees, have departed on flights to Istanbul and Moscow.

It was not clear whether Azerbaijan's political upheaval was over. Mr Aliyev's comeback was forewarned a week ago, when rebel troops seized Azerbaijan's second city, Gyanja, and demanded Mr

Elchibey's resignation. Though the troops, led by a charismatic businessman, Mr Surat Huseynov, have voiced their support for Mr Aliyev, they now have taken control of up to half the Caspian Sea nation, and are within 70 miles of Baku.

Mr Elchibey, whose popularity has steadily waned since he came to power about a year ago, has threatened to use force to defend his government. But it is unclear how much loyalty he still enjoys in the military, or among the Azeri population of 7m.

The key factor in Mr Elchibey's loss of popularity have been the lack of economic improvements and a string of military defeats in the war in the enclave of Nagorno-Karabakh. On Monday night ethnic Armenians from Nagorno-Karabakh finally agreed to a brokered settlement. But at the same time ethnic Armenian troops appeared to be encircling yet another important city in the region, Agdam, which actually lies outside Nagorno-Karabakh.

The continued fighting was bound to put new pressure on Mr Elchibey, and give Mr Aliyev a stronger hand ultimately to topple him.

## Russian constitutional talks given new deadline

By Layla Boulton in Moscow

PRESIDENT Boris Yeltsin's constitutional convention will adjourn today for a 10-day break during which experts are likely to try to come up with either a compromise draft constitution or temporary rules for new elections.

President Yeltsin had earlier set the convention a June 16 deadline to finalise a draft constitution.

However, Mr Vladimir Shumeiko, first deputy prime minister, announcing yesterday that the convention would resume on June 26, said that the top priority of the presidential camp was early parliamentary elections.

For this purpose, an electoral bloc was being formed with the aim of uniting all the country's pro-reformist forces to win as many seats as possible in a new parliament. Founders of

the bloc include Mr Yeltsin's closest colleagues and leaders of the radical democrat movement, and will be led by the Russian president himself.

The president is also expected soon to order the creation of a conciliatory commission to work on the presidential and parliamentary drafts for a new constitution between now and next week.

Meanwhile, a number of influential delegates at the convention yesterday began circulating a plan for a new constitution to be adopted by a newly-elected parliament. Instead of the existing Congress of People's Deputies.

The plan includes rules for early parliamentary elections and a temporary division of powers between president and parliament.

This temporary move would be until a new parliament adopts a new constitution set-

ting out all these provisions.

"An election campaign is already under way in Russia," Mr Gennady Burbulis, a close ally of Mr Yeltsin, told reporters at the Kremlin yesterday.

While recognising that the existing parliament is unlikely to adopt a new constitution, the plan for new elections would also have to be approved by the Congress of People's Deputies in order to be constitutional.

The Congress is unlikely to agree to its own dissolution however, leaving the president with the choice of violating the existing constitution unless he can get deputies to change their mind.

A group of 315 deputies is already trying to gain signatures of another 80 deputies so it can threaten to resign and deprive Congress of a quorum unless it agrees to vote itself out of office.

## Ukraine's leader adopts Yeltsin tactic in struggle

By Chrystia Freeland in Kiev

THE Ukrainian president, Mr Leonid Kravchuk, yesterday called for a referendum on Ukraine's constitutional structure and early parliamentary elections.

Mr Kravchuk's proposal, which was immediately rejected by parliament but is scheduled to be put to the vote again today, is in part a reaction to the political demands of striking coal miners in the Donbass region of eastern Ukraine.

Like Russia's president, Mr Boris Yeltsin, who was strengthened by Russia's April referendum, Mr Kravchuk is playing for high stakes. He said he would interpret a no vote in the proposed ballot, to

be held sometime this year, as a public expression of no confidence and would step down.

However, like Mr Yeltsin, the unpopular Ukrainian leader is gambling on receiving a public endorsement which would strengthen his hand in the bitter struggle between the various branches of government in Ukraine.

Mr Kravchuk's nemesis, Mr Leonid Kuchma, the prime minister, also raised the stakes yesterday, suggesting that he will seek emergency powers over the economy even greater than those he asked for - and was refused - in May.

Mr Kuchma said that the Ukrainian economy would collapse unless one branch of government is given nearly absolute control.

## UN called on to revise its rules on peacekeeping

THE United Nations must work out new rules for peacekeeping in crises like the former Yugoslavia and Somalia, the Stockholm International Peace Research Institute (Sipri) said yesterday, Renter reports from Stockholm.

The collapse of totalitarian communism has led to civil wars which the world body is powerless to stop at present, Sipri experts said at a news conference to launch its 1993 year book.

Authors of the year book, considered the standard reference work on world arms and disarmament, commented that in 1992 the UN moved towards a policy of imposing or promoting peace rather than maintaining the status quo. "The problem with Yugoslavia is that there is no peace to be kept, and enforcement activity cannot come about because there is no outside, agreed policy," said spokeswoman, Ms Regina Cowen-Kemp.

Sipri said the number of military personnel involved in peacekeeping had soared last year to more than 62,000 from about 15,000 in 1991 but warned against a tendency to see

peacekeeping as a panacea for all the world's conflicts.

"The expectations are exaggerated. Peacekeeping should be used only in the last resort. Preventive diplomacy and crisis management are more important," said Mr Adam Daniel Rotfeld, Sipri director.

World military spending fell by 15 per cent in 1992 but civil wars flared in 29 different places, according to Sipri. It gave no overall figures, but officials said industrialised countries spent about \$540bn (\$350.6bn) in 1992, about 65 per cent of the world total.

Mr Rotfeld said the collapse of totalitarian regimes in eastern Europe and the former Soviet Union had raised, then dashed, hopes of an improvement. He said that 1992 had brought neither well-being nor respect for democracy and the rule of law in former Yugoslavia and the Soviet Union.

On a positive note, Mr Rotfeld mentioned the 1992 Start II treaty in which the United States and Russia agreed to limit their strategic nuclear forces, and the chemical weapons treaty opened for signature in Paris this year.



William Tell Monument, Atdart

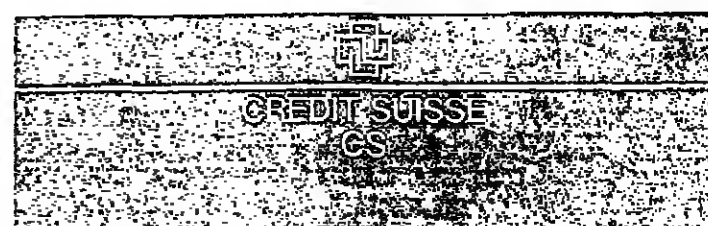


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## NEWS: EUROPE

## Dealers set for Germany to cut rates

By James Blitz in London and David Buchan in Paris

FOREIGN exchange dealers believe the Bundesbank may cut short-term interest rates at its council meeting tomorrow after one of the central bank's leading members said German money supply might have fallen within acceptable targets last month.

Mr Johann Wilhelm Gaddum, Bundesbank directorate member responsible for credit market operations, said yesterday the country's M3 money supply growth may have moved within the Bundesbank's stated target range of 4.5-6.5 per cent on an annualised basis.

In the first four months of this year M3 money supply overshoot the Bundesbank's target, expanding at a seasonally adjusted and annualised 7.0 per cent.

However, in an interview with the AP Dow Jones news agency Mr Gaddum said "money supply developments could indeed move back within the corridor, in line with the economic cooling-off".

Dealers speculated that slower money supply growth could give the Bundesbank its first opportunity in more than a month to cut rates at its council meeting.

The news helped the dollar close up more than a penny

on the day, at DM1.6375, while sterling gained 1.25 pence to close at DM2.4935.

In Paris yesterday, Mr Helmut Schlesinger, Bundesbank president, congratulated France on having lower interest rates than Germany, due to its better inflation record.

He told the Senate that France had relative "economic and monetary stability, while in Germany we cannot boast about the same stability in prices" - an indication that the Bundesbank is still concerned about Germany's inflation rate, which is a couple of points above France's.

But Mr Schlesinger said the Bundesbank had at least "kept the D-Mark stable for 40 years and intends to go on doing so".

He quashed any speculation that the German and French central banks might establish a close bilateral link. An independent Bank of France has been approved by the National Assembly, and action by the Senate is awaited.

Lengthy and close co-operation between the French and German central banks had taken on a "particular dimension" during the franc crisis, but this needed no further reinforcement beyond the links that bound all EC central banks, Mr Schlesinger said.

## Romanian IMF deal delayed by budget

By Virginia Marsh in Bucharest

ROMANIA will have to amend its 1993-1994 budget and make further spending cuts before a new stand-by arrangement with the International Monetary Fund can be signed, Mr Misu Negritoiu, deputy prime minister, said in an interview yesterday.

The delay in signing a new IMF agreement to replace the previous one, which expired in March, is holding up some \$30m in foreign credits.

Mr Negritoiu, who has responsibility for economic reform, said the IMF put the 1993 budget deficit at 5 to 6 per cent of GDP, rather than the 4 per cent projected in the budget approved in April.

He said that if parliament accepted the amendment before the summer recess, a new agreement could be negotiated by July.

A nationwide train drivers' strike severely disrupted services for the second day running yesterday.

SNCFR, the railway administration, declared the strike illegal and pledged to take action against union leaders. Under Romanian regulations, one-third of services must be maintained even during a general strike.

The train drivers' union called its 32,000 members out on strike on Monday, demanding a 40 per cent pay rise rather than the 16 per cent offered by the government.



French waste-paper collectors jammed traffic in parts of Paris yesterday morning in a protest over German imports, which have driven down the prices they obtain from paper manufacturers using recyclable products. Reuter reports. They blocked several main roads with trucks and piles of old paper and cardboard. Paper collection companies say 27,000 jobs in the industry are threatened.

## Matra fails to block rivals' aid

MATRA, the French car and aerospace company, yesterday lost a long court battle against a large state aid package approved by the European Commission for a rival joint venture created by Ford and Volkswagen. Reuter reports from Luxembourg.

The European Court rejected its appeal against Brussels' decision in mid-1991 to allow the Portuguese government to give Ecu547m (\$658m) to the Ford/VW venture in Setúbal.

The court said the Commission had done all that was required of it in investigating the case under EC rules on state aid. About three-quarters of the aid is money which Portugal received from Brussels in EC development funds.

VW and Ford are teaming up to build luxury, family-oriented vans that will rival Matra's Renault Espace model.

## SPD leaders ready to support Telekom sale

By Ariane Genillard in Bonn

THE LEADERSHIP of Germany's opposition Social Democrats intends to support a government plan to privatise Deutsche Telekom, the state-owned telecommunications monopoly, and circumvent opponents within their own party ranks.

Mr Hans Bernath, leader of the party's team which negotiated the privatisation plan with the government two weeks ago, said SPD members of parliament would not vote on the plan, but would simply be canvassed on the issue.

SPD politicians favouring the privatisation fear that a formal vote could result in the parliamentary party rejecting the plan by a narrow majority.

The planned informal poll will enable the government to start drafting the bill, which it

intends to put before parliament by October.

The decision follows intense negotiations among SPD parliamentarians over a privatisation agreement signed between representatives of the SPD and the government on May 28, after a year of difficult negotiations. The government needs opposition support in order to change the constitution to pave the way for privatisation.

The plan is to create a state holding company under which three independent joint stock companies would operate: Deutsche Telekom, the telecoms monopoly, the Post Office and the Postal Bank. This structure was devised to win the SPD team's approval.

However, it has yet to gain support among many SPD parliamentarians, some of whom fiercely oppose the outright privatisation of Deutsche Telekom and of the postal services.

As with other privatisation projects in Germany, the future of Deutsche Telekom now depends on the ability of the SPD parliamentarians to overcome their internal divisions. A large number of them oppose privatising Deutsche Telekom on the grounds that a private company would no longer fulfil its obligations towards poorer and less populated regions. They are also representing the views of the post and telecoms union which fears losing members.

The telecoms ministry, for its part, has offered to keep a 50 per cent-plus-one share stake in Deutsche Telekom ensuring the state some say over its management. The government also argues that creating a holding company will ensure maintenance of union power.

## California attacked on unitary taxation

By Andrew Jack

FT CALIFORNIA'S system of a unitary tax based on the worldwide income of multinational companies came under criticism from a senior official of the UK's Inland Revenue at the Financial Times international tax conference in London yesterday.

Mr Leonard Beighton, deputy chairman of the Inland Revenue, said California's approach could only have "arbitrary and bizarre" results. His comments followed the threat of retaliatory action against Californian companies with UK operations by the chancellor of the exchequer last month if the state does not lessen its demands.

He said the Revenue had written to these companies to assess the extent of tax credits of which they would be deprived, but stressed it hoped instead for co-operation.

Mr Beighton stressed the importance of maintaining international tax principles, especially the importance of the arm's length principle of taxing companies by the profits made in a country and not on worldwide income.

Mr James Mogle, a partner with US lawyers Sutherland, Ashill & Brennan and former international tax counsel at the US Treasury, told the conference that Congress had not so far taken the British threat seriously. But he warned that any attempt to impose retaliatory action would be seen by Congress as an attempt to over-ride the arrangements negotiated in the current US-UK tax treaty. That could jeopardise other treaties.

Mr David Carr, from the European Commission's financial institutions and company law directorate, said the EC was pursuing plans to extend proposed tax directives to cover enterprises resident and subject to corporate tax in any member state, with progress expected "before too long".

## Shift in EC funds urged

By Tim Coone in Dublin

PRIORITIES in disbursing EC structural funds in Ireland need to be changed, significantly, says a report published yesterday by the Dublin-based Economic and Social Research Institute (ESRI).

The report, commissioned by the Irish government's Department of Finance, recommends more resources be directed at

training early school-leavers and the long-term unemployed. It says the emphasis of rural development funds should be shifted from extensive grazing to forestry and industrial policy should give greater emphasis to supporting medium-sized Irish-owned companies than to foreign investment.

The recommendations are likely to have a significant influence on the government,

and on EC budget controllers, as the former draws up its spending plans for an estimated E280n (\$120bn) that is expected to be available to Ireland in EC structural and cohesion funds between now and the end of the decade.

The report notes that the inflow of EC structural funds to Ireland over the past two years was equivalent to 3.5 per cent of GNP.

## Ministers get line on phone plan

By Andrew Hill in Brussels

EUROPEAN Community ministers today have their first chance for detailed debate on ambitious plans to open all telephone calls to competition by 1998 - and possibly their last chance to agree a deal on funding for the promotion of advanced television services in Europe.

Telecommunications ministers, meeting in Luxembourg, are set to discuss the European Commission's proposed deadline of January 1, 1998,

for full liberalisation of domestic and international calls.

Commission officials say the plan is supported by an influential quartet of Britain, Germany, France and the Netherlands, but several smaller member states may press for a delay.

Meanwhile, advocates of an EC wide-screen and high-definition television (HDTV) strategy are planning their hopes for a deal on the replacement of the hardline Mr Edward Leigh as UK minister responsible for

telecoms in last month's ministerial reshuffle.

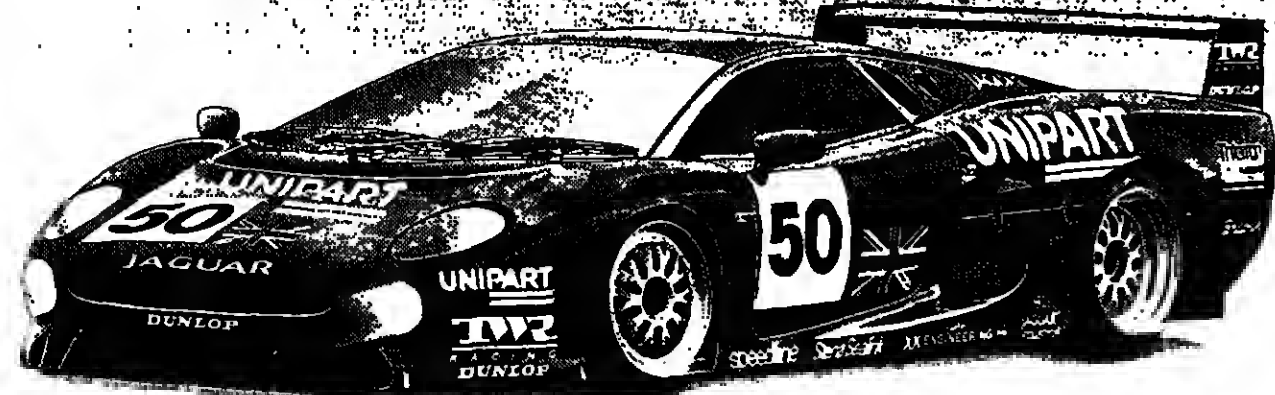
To the irritation of the Commission, and of the Dutch and French governments, British opposition, spearheaded by Mr Leigh, has helped force changes to the original HDTV strategy. Mr Leigh has been replaced by Mr Patrick McLoughlin, a former junior employment minister, who will have to decide whether to accept compromise plans for Ecu225m (\$270m) of EC funding up to the end of 1996.

British diplomats have played down the change in minister, pointing out that Mr Leigh himself accepted the substance of the plan at the last ministers' meeting in May, while insisting that the UK could not sign up to a plan worth more than Ecu150m.

Officials from Belgium, which will take over the EC presidency in July, have already indicated that if a deal is not struck today, they see little room for improving the current compromise to meet British objections.

Bigger picture, Page 13

# THE BIG CATS ARE BACK



## JAGUAR DRAMATICALLY RETURN TO LE MANS, THE SCENE OF THEIR PREVIOUS TRIUMPHS, WITH THE FABULOUS NEW XJ220C.

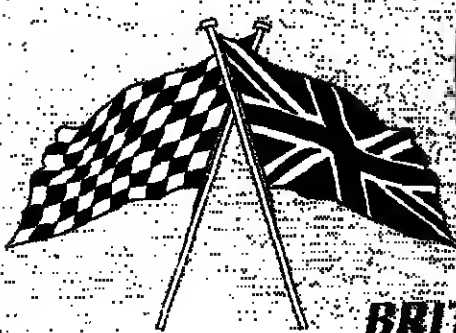
For the first time since their impressive series of victories at Le Mans - the official Jaguar Team is back - and they are sponsored by Unipart!

When Jaguar announced their return to this most famous of endurance races with their new 'super car', the XJ220C, it was obvious they would require a backer with the same international reputation for excellence as their world-famous marque. So it was no surprise when Jaguar chose Unipart to be their main sponsor.

Not only will Le Mans be a tough testing ground for a number of Unipart products, but the fact that the three XJ220Cs will carry the Unipart name further underpins the close business relationship between the two companies; illustrating the total commitment Unipart has to providing the highest level support for its world-beating customer.

This relationship is based on the world-class track record of Unipart Demand Chain Management (DCM) in supplying consistently high levels of service to Jaguar over a number of years - now Jaguar dealers in the UK have come to rely on the Unipart 24-hour parts operation. And it's a fact that over the duration of the race, Unipart DCM will have delivered 20,000 automotive components to Jaguar customers world-wide! This level of service provided by DCM has resulted in Jaguar signing a long term agreement with the Unipart Group of Companies to manage its parts operation into the 21st century.

And, as you would expect from the manufacturers of Britain's fastest car, they also have Britain's fastest parts delivery service - Unipart, the parts supplier the Big Cats prefer.



# UNIPART

## BRITAIN'S FASTEST PARTS SERVICE

## Unification changes the place of women in the new German home

"UNIFICATION has not been kind to the women of eastern Germany," says Ms Barbara Pfeiffer. In 1989, demonstrations in her home town of Leipzig spawned the people's revolution which brought down the Berlin Wall. Two years later Ms Pfeiffer lost her job when the chemicals factory where she had worked for 25 years closed down.

Ms Pfeiffer, however, was sufficiently determined - and lucky, she says - to find a part-time job with a local construction company. Many women, who have borne the brunt of the surge in unemployment in eastern Germany since unification, have not been as fortunate.

The official April unemployment total of 15.4 per cent hides the extent of the problem. Including those on job creation and training schemes and those who only have part-time jobs, about 30 per cent of the workforce are without full-time work. Two thirds of the unemployed are women.

By contrast, East Germany guaranteed employment to more than 90 per cent of women, who accounted for 49 per cent of the labour force in 1989. "The regime needed us," explains Mrs Pfeiffer. "It wanted to show there was equality under the communist system and it wanted us to work because many had fled before the Wall went up in 1961. We also needed the money, even though we were paid less than men," she adds.

Although the chemical plant where she worked turned out low-grade products, health standards were almost non-existent, and few employees were motivated by a manage-

ment chosen for their loyalty to the communist party, "it was a job," says Mrs Pfeiffer.

The state's abundant provision of child-care made it easy for women to work. Until 1989, 80 per cent of children under three had a crèche place, 95 per cent of pre-school over-threes attended kindergartens, more than 80 per cent of those aged

where to cut back." It said east German women would in future have to pay for child care.

Such a move would come on top of the scrapping of the former East Germany's generous child benefits. Unemployment - and the abolition of those benefits - has slashed the birth rate from 2.5 children per family to 1.3, as low as in western Germany and one of the lowest in Europe.

Unification has also impinged on the former East Germany's liberal abortion laws. "In the old days, women in eastern Germany had one big freedom: abortion on demand. We could not understand why it was illegal for West Germans to have abortions," says Ms Pfeiffer.

Abortions were a common form of birth control, as in all of eastern Europe. Yet East German women saw abortion on demand not in ethical or moral terms, but as a political issue where women had complete freedom of choice. "The state never dared interfere. This was our one area of freedom," says Ms Pfeiffer.

Thus the German constitutional court's ruling last month that abortion should remain illegal and only available under certain conditions has angered many east German women. "The new unified state is imposing its will on us," says Ms Pfeiffer. "Our choice to work and control our own lives have disappeared."

East German women have had difficulties coming to terms with the multiple challenges of unification. Ms Eva Kolinsky, professor of German

studies at Britain's Keele University, who is studying the position of women in Leipzig since 1989, says an entire generation of women have lost out as a result of unification. "Those in mid-career, in their 30s or early 40s, will find it very difficult to re-enter the labour market," she says.

Ms Kolinsky is hopeful, however, for the next generation. "More women are attending university. They see qualifications as the key to entering the market, when it picks up," she says. "But the price has been high. An entire generation has lost their social status in the new Germany."

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## INTERNATIONAL COMPANIES AND FINANCE

## Enso-Gutzeit returns to black in first four months

By Hugh Carnegie  
in Stockholm

ENSO-GUTZEIT, the Finnish pulp and paper group which announced a large investment in eastern Germany last week, moved back into the black in the first four months.

The group returned a profit after financial items of Fm68m (\$16m), compared with a loss of Fm78m last time.

Group sales were up 21 per cent to Fm4,096m, while operating profits rose from Fm496m last year, equivalent to 15 per

cent of net sales, to Fm964m, or more than 23 per cent of net sales, in the first four months this year.

The improvement was attributed to the effects of the devaluation of the Finnish markka in autumn, higher capacity utilisation, and improved productivity.

However, Mr Jukka Härmälä, chief executive, warned it was unclear whether the upward trend would continue.

He said uncertainty had increased lately over the key factors of economic conditions

in Europe and price trends for forestry products.

Excess supply had so far kept markets tight, Mr Härmälä said.

Enso spent almost Fm1.8bn on capital expenditure in the first four months, mainly on completing a pulp mill and a combined cycle power plant in Finland.

It said the emphasis would now switch to international operations where the main investment is a DM800m (\$493m) recycling plant east of Leipzig in Saxony.

## Anger over Fondiaria L1,058bn rights issue

By Haig Simonian in Milan

INSURANCE analysts have voiced almost unanimous disapproval to Monday night's surprise announcement of a L1,058bn (\$724.16m) rights issue by Fondiaria, Italy's third biggest private-sector insurer. The insurer reported 1992 group losses of L578bn.

"This is a return to the bad old days of ignoring minority shareholders, just at a time when Italy is supposed to be changing," said one angry London-based broker.

Shares in Fondiaria, controlled by the debt-laden Ferruzzi Financials (Ferruzzi) holding company, fell sharply in

Milan yesterday in response to the 2-for-1 rights issue, priced at L4,500 a share.

Fondiaria stock fell by over 10 per cent to L24,101 from L26,943 as investors cut their losses by selling their holdings.

The rights issue, which will halve Fondiaria's total group debts of L2,888bn, is seen as a barely veiled debt-for-equity swap by Ferruzzi's five main creditor banks, which are underwriting the deal.

Galc, the listed holding company which owns about 40 per cent of Fondiaria, is not expected to take up its rights. Galc is 80 per cent-owned by Ferruzzi and the heirs of Mr Camillo De Benedetti. Ferruzzi owns about

11 per cent of Fondiaria independently of Galc. Neither is thought to be in a position to acquire additional shares.

On that basis, the five underwriters - Mediobanca, Banca Commerciale Italiana, Banca di Roma, Credito Italiano and Istituto Bancario San Paolo di Torino - will end up with about 80 per cent of Fondiaria. The underwriters' stake could be appreciably higher if minority investors in Fondiaria fail to take up their rights.

Separately, Mediobanca owns about 15 per cent of Fondiaria, while Generali, the Italian insurer with which it is closely allied, has about 7 per cent.

The fact that the rights issue is roughly the same size as Fondiaria's L1,058bn group debts to banks has reinforced fears that control is effectively being transferred to Ferruzzi's main bankers without launching a public tender offer, in the first step in the gradual dismemberment of the Ferruzzi empire. Such transfers of control have been made more difficult under new stock market rules, but remain possible.

Although Fondiaria's future is still unclear, the group is not expected to survive in its present form in the long term.

Separately, shares in Ferruzzi and its subsidiaries continued falling heavily on the Milan

stock exchange, bringing down the stock of the group's five main creditor banks and most of the market in their wake.

Trading in Montedison, Ferruzzi's main industrial operation, was suspended for the second day running as dealers failed to fix a price between vendors and purchasers owing to the weight of selling pressure. The stock was eventually fixed at L779 for a fall of 20.1 per cent. Shares in Ferruzzi also plunged, by 10.4 per cent to L583.5 from L648.3 on Monday, while the Galc holding company, which controls the Fondiaria insurance group, quoted at L815 on Monday failed to find a price.

## Italian regional banks link up

By Haig Simonian

TWO of Italy's biggest regional banks have agreed to take small equity stakes in each other in what could be the first step towards the creation of a private sector financial group.

Credito Romagnolo, the Bologna-based bank in which Mr Carlo De Benedetti's Cir group is one of the most important shareholders, is to buy about 10 per cent of Cassa di Risparmio di Bologna, the city's

savings bank. In return, CRB will buy up to 5 per cent of Credito Romagnolo.

Both sides have indicated the swap promises to be the prelude to a gradual integration of financial services in one of Italy's industrial heartlands. The two banks specialise in retail services and lending to small and medium-sized businesses, which form the economic backbone of the Emilia Romagna region.

The agreement is the first step towards the creation of a

big Bologna bank," said Mr Gianluigi Sacchi Morsiani, chairman of the savings bank. To launch their co-operation, the two banks will rationalise duplicated operations in some financial services and study setting up joint ventures in others.

Credito Romagnolo, in which France's Banque Nationale de Paris has over 6 per cent, has about 350 branches and deposits of L46,000bn (\$31bn). CRB has 110 branches and deposits of L11,500bn.

## Mövenpick may be exposed to SFr5m claims

By Ian Rodger in Zurich

MOVENPICK, the Swiss hotel and restaurant chain, yesterday said that Mr Wolfgang vom Hagen, its former chief executive officer, may have exposed it to claims of up to SFr5m (\$3.4m).

The directors said they have over a dozen cases involving staff appointments and dismissals and other alleged violations of company law committed by Mr vom Hagen that could lead to claims. The state-attorney general said that Mr vom Hagen had given orders to external consultants without the knowledge of the management board, leading to charges of about SFr30,000 per working day in 1992 but no results.

## France leads in European state sell-offs, study finds

By Peter Martin in London

EUROPEAN governments plan to privatise between \$100bn and \$150bn worth of state-owned companies in the next five years, according to a new study by Morgan Stanley, the US investment bank.

The biggest wave of privatisations will come in France, says the report, where the government plans to sell off assets valued at between \$30bn and \$40bn. Next comes the UK, with \$20bn, Italy (\$10bn-\$15bn), Sweden (\$10bn), Germany (\$8bn) and Spain (\$5bn-\$8bn). The \$150bn of assets to be sold is equivalent to 10 per cent of total European stock market capitalisation, or 2.5 per cent of EC gross domestic product.

The likely privatisations are concentrated in a few sectors, especially telecommunications (between 15 and 20 per cent of assets to be sold), energy and utilities. Together, these make up over half the value of planned privatisations. There will also be substantial sales of state-owned banking and insurance institutions.

Mr David Roche, one of the authors of the study, said he expected governments to be able to find buyers for these shares as long as interest rates fell and they offered appropriate incentives to buyers together with a stable political and regulatory framework. European Privatisation by Richard Davidson and David Roche, Morgan Stanley, 25 Cabot Square, London E14 4QA.

## Rothschild pays the price of a Swiss scandal

Ian Rodger looks at an affair which has forced the family to bolster bank reserves

It had been anyone but the Rothschilds, they would not have been able to survive.

That comment, from a leading Zurich banker, sums up the reaction to a scandal that has held the Swiss financial community spellbound for the past year. In the latest chapter, the bank revealed, yesterday it had written off SFr270m (\$190.10m) provision for losses on bad loans.

The story began last July when Rothschild Bank, the Zurich-based affiliate of N. M. Rothschild of London, announced it had to liquidate its SFr63.5m of hidden reserves to help cover SFr100m in loan losses.

This was an immense loss for a bank with only SFr185m in capital and was supposed to be the business of managing rich people's funds, not lending.

A few days later, Mr Jörg Heer, the bank's credit manager, was arrested and charged with defrauding the bank. More details later dribbled out. The amount of the losses was more than SFr200m, undermining the bank's capital base, and most of it had been loaned to one client, breaking Swiss law.

In October, Mr Heer, who had been freed by the Zurich police pending completion of investigations, made a series of sensational charges in the Swiss press. The bank was setting him up as a scapegoat, he said, and he would do his best to implicate others.

He said the bank had been operating a "criminal system" to help rich Italians hide their fortunes from the tax authorities.

He claimed Rothschild had been involved in various schemes, even including the payment to the alleged murderers of Mr Roberto Calvi, the former chairman of Banco Ambrosiano



Sir Evelyn: net loss of customers 'not dramatic'

found hanging under Blackfriars Bridge in London in 1982.

The bank yesterday again denied the allegations: "We are convinced that criminal proceedings will prove that Heer's statement as to a criminal system within Rothschild Bank is untrue."

The charges have caused immense damage to the reputation not only of the Zurich bank, but also to the Rothschild family. "Obviously, we have lost some clients," says Mr Guy Wals, the general manager hired last autumn to straighten the bank out.

However, the Rothschild family closed ranks, injected SFr120.5m of new capital into its Zurich problem child and set about implementing the 100-odd recommendations for tightening up procedures made in a study by Coopers & Lybrand.

Operating profits have been maintained and Mr Wals says the net loss of customers is "not dramatic". Sir Evelyn de Rothschild, the chairman, writes in the annual report that the bank is "strongly placed to meet the challenges of the future".

A full picture of what actually went wrong must inevitably await the completion of investigations, but the broad outlines are now clear.

The bank's troubles date from 1981 when Mr Gilbert de Botton, its original general manager, left to work for Mr Jacob, now Lord, Rothschild's bank in London (which has no association with the Zurich bank).

Baron Elie de Rothschild, head of the French family and then chairman of the Zurich bank, hired Mr Alfred Hartmann, a Swiss banker, to replace him. By all accounts, neither Baron Elie nor Mr Hartmann was particularly attentive to the business, and a trimvirate of line executives, including Mr Heer, were left largely on their own.

In the subsequent years, the bank would get into a couple of serious scrapes, making an illegal loan to the Zug-based international commodity dealers Marc Rich in 1984 and buying some SFr11.8m worth of Jacob Suchard shares for its own account in 1981 when it was advising on a takeover bid for the confectionery group.

The bank's most fateful adventure, however, was financing the projects of Mr Karsten von Wersebe and Mr Wolfgang Stolzenberg, two German Canadians with an impressive record leading private consortia of European investors in North American property deals.

Rothschild, through Mr Heer, provided loans to companies associated with these two, mainly Castor and York

Hannover. The documentation for the loans, which a lawyer for Mr von Wersebe has shown to the FT, reveals very large front-end commissions.

Moreover, on occasions, Mr Heer would observe that Rothschild's own lending exposure to the York Hannover-Castor companies was at its legal limit, so would propose organising some Rothschild clients in a private consortium to provide the loans through an offshore company.

In 1991, when the squeeze in the North American property market became acute, the lending increased to a level that began to arouse suspicion at the bank. And early last year, when both York Hannover and Castor collapsed, Rothschild found itself with a huge portfolio of worthless loans. What remains at issue is who committed illegal acts. Mr Heer has admitted skimming off SFr30m in commissions on his lending activity, an amount that is remarkably close to the commissions shown in Mr von Wersebe's documentation.

Rothschild has maintained that Mr Heer was acting alone and hoodwinked the bank's directors and auditors. Baron Elie and Mr Hartmann, who was deputy chairman, have since left the bank, and the bank's former auditors, KPMG, Pöschel, have been replaced.

Outsiders cannot understand how one man could have committed a relatively small bank to SFr270m in loans without other directors being fully briefed. The Banking Commission's investigation is aimed at discovering whether others, perhaps including some officers still at the bank, were complicit.

Investigations are being seriously hampered by the disappearance of Mr Heer. He fled Switzerland in December.

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Rue des Paroissiens 27  
B-1000 Brussels (Belgium)  
Brussels Trade Register No. 552493

The shareholders are invited to attend  
the Annual General Meeting

which will be held at the company's registered office  
Rue des Paroissiens 27  
B-1000 Brussels (Belgium)  
on Monday June 21st, 1993 at 3.00 p.m.

with the following agenda:

1. Report of the Board of Directors
2. Report of the Statutory Auditor
3. Approval of accounts and allocation of results
4. Granting discharge to the Directors and the Statutory Auditor
5. Statutory elections
6. Miscellaneous

Shareholders or their proxy, who wish to attend the Annual General Meeting should deposit their shares at least five days prior to the date of the meeting at the company's office or with:

- Indosuez Bank Belgium  
Place Sainte-Gudule 14  
B-1000 Brussels (Belgium)
- Indosuez Asia Investment Services Ltd.  
Suite 2606-2608  
One Exchange Square  
Central Hong Kong

Shareholders are advised that no quorum is required for the items on the agenda and that the decisions will be taken by simple majority of the shares present or represented at the meeting.

The owners of registered shares should inform the Board of Directors in writing at least five days prior to the date of the meeting of their intention to attend the meeting and should indicate with how many shares they want to vote.

"The share issue being already oversubscribed, this announcement appears as a matter of record only"

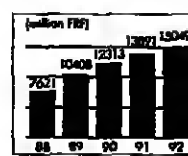
REXEL  
increases its capital

Rexel, formerly CDME, takes a majority interest in Groupelec  
Distribution and increases its capital to strengthen its development in  
the distribution of electrical equipment.

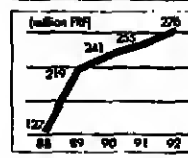
## Yesterday CDME

## KEY 1992 FIGURES

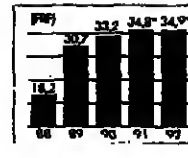
Consolidated turnover: FRF 15,049 million  
Consolidated net income: FRF 276 million  
Workforce: 8,702  
Sales outlets: 750  
Subsidiaries: 51 established in 14 countries.



Increase in consolidated  
turnover:  
+ 97.47 %



Increase in consolidated  
net income (CDME part):  
+ 117.52 %



Increase in earnings  
per share:  
+ 91.76 %

\* Calculation based on  
the average number of shares  
during the fiscal period.

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Priority period for shareholders: 11 to 24 June 1993 • Public offer: from June 11, 1993

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## INTERNATIONAL COMPANIES AND FINANCE

## Rising yen deals fresh blow to Nissan

The Japanese carmaker's president talks to William Dawkins and Michio Nakamoto

**N**ISSAN recently aroused a stir when it became the first Japanese carmaker since the second world war to announce a plant closure.

The pain, while mild by the standards of the wholesale job cuts experienced by the US and European car industries, is not yet over, it was revealed yesterday.

Mr Yoshifumi Tsuji, Nissan president, said his restructuring plan had not taken account of the blow to export earnings dealt by the yen's unexpectedly steep rise.

This was the first time that the yen had appreciated significantly against both the dollar and the D-Mark, hitting Nissan's price competitiveness in both the US and Europe, its main export markets, he explained.

Nissan's options included price rises and another round of cost-cutting, although there was no definite plan yet, he said.

This comes after a year in which Nissan made its first loss as a listed company and had to announce the shutdown of the Zama car assembly plant near Tokyo, the main part of a plan to shed 5,000 jobs out of Nissan's 53,000 Japanese workforce over the next three years.

Nissan Motor

Net profit/loss (Y bn)



Year ended March 31

The company will not make any redundancies but will rely on natural wastage, yet the need to shrink the business is a heavy blow to the pride of Japan's second largest car and truck group.

Nissan's workforce might already seem lean by European car industry standards, a reflection of the fact that Japanese carmakers sub-contract more components to outside suppliers than do European manufacturers.

Nissan reckons that subcontracted components represent

NISSAN CAR SALES				
	1992	% share	1991	% share
USA*	414,011	5.0	412,388	5.0
West Europe	437,839	3.2	439,218	3.3
Japan	865,648	19.9	959,982	20.5

\*Including India

Source: Automotive Industry Data

**Attempts to reduce Japanese car export quotas to the EC and to count Nissan UK's production in the quotas were 'unfair and unreasonable,' Mr Tsuji said. 'We should be regarded as a fully-fledged member of the EC'**

70 per cent of its manufacturing costs, as against the 60 per cent or so claimed by French car makers.

Even so, Mr Tsuji warned that he might have to wield the knife again.

Nissan had cut costs in previous downturns, "but then we tended to put on more weight, more fat than before" when a recovery materialised, he said.

This time, Nissan would need to stay smaller, said Mr Tsuji, a man of gravity whose engineering background is said to have earned him the respect

of Nissan manufacturing staff at the sharp end of the job cuts.

The closure of Zama would not have a big impact on Nissan's financial position, Mr Tsuji says. But clearly Nissan believes the move was essential to adjusting to what it fears is a long-term market decline.

"Until now we could always expect an increase in demand and we set our production capacity accordingly. But we can no longer expect demand to meet the 2.5m units per year

capacity Nissan has." The three-year plan aims to slim capacity to 2.3m units annually.

The Japanese car market looked set for a recovery in the next six months or so, but Mr Tsuji saw no sign of an upturn in Europe, where Nissan sales volumes fell 10.4 per cent in the first five months of the year in a market down 17.3 per cent.

Asked about the outlook for his Japanese competitors, Mr Tsuji said that the 11 car and truck makers could all survive on condition that they did not poach each other's market specialties.

This contrasts with a widespread view in Japan that the nation's car industry will need deep restructuring.

The other cloud on the Japanese car industry's horizon is the growing trade friction with the US and the European Community.

Tensions with the Clinton administration posed more of a problem than did the EC's fresh bout of anxiety over Japanese car imports and local production, Mr Tsuji said.

Local content for Japanese carmakers was lower in the US than in Europe and Mr Tsuji recognised the need to increase that content in the face of the tensions.



Yoshifumi Tsuji does not deny Nissan has reached a watershed

Here, it was a strength for Nissan to have a Mexican plant which exported engines and transmissions to Nissan's car assembly plant in Tennessee.

Vehicle demand in Latin America was so strong that Mr Tsuji saw no room for Nissan Mexico to export vehicles to the US.

The European Commission's attempts to reduce Japanese car export quotas to the Community and to count Nissan UK's production in the quotas were "unfair and unreasonable," he said.

The pressure for tighter quotas, mainly exerted by France and Italy, was a response to the much steeper fall in European car demand than had been anticipated in the 1991

Japanese car imports accord.

However, Nissan had no intention of changing its UK business plans in the light of all this. "We should be regarded as a fully-fledged member of the EC," Mr Tsuji said.

Like other Japanese carmakers, Nissan was studying the fast-growing Chinese market. But Mr Tsuji was cautious about Nissan's ambitions there. "We still do not know how aggressive we should be in the Chinese market. The future of China is still uncertain," he said.

Clearly, Nissan will think hard before embarking again on the breakthrough expansion of the past. Mr Tsuji does not deny that the Japanese group is at an important watershed.

## Toyota may use Ford components in its cars

TOYOTA will start design-in development with Ford Motor's automotive development group in a deal which could lead to the Japanese car group using Ford components in its cars for the first time, writes Michio Nakamoto in Tokyo.

Through the design-in development agreement, Toyota will be studying whether Ford's cruise control system might be appropriate for use in its own cars, Toyota said.

The Japanese company already buys components such as shock absorbers and radiators from General Motors, for use in its cars manufactured both in the US and Japan.

Toyota cited the need to co-operate with foreign companies and to study what components could be bought from foreign companies as an important factor behind its decision. Toyota currently uses cruise control systems developed in Japan by its main Japanese components suppliers such as Nippon Denso.

Growing trade friction with the US, however, has forced Japanese carmakers to consider buying more components from US manufacturers.

## Joint Miramar bid hits valuation snag

By Simon Holberton in Hong Kong

MR Li Ka-shing and Citic Pacific's joint bid for Miramar Hotel and Investment has hit a snag with Miramar's senior executives claiming that the bid undervalues the hotels and property group by up to HK\$2.5bn (US\$343m).

In a letter to shareholders, Mr Young Bing-Ching, Miramar director and general manager, said the overture from Mr Li and Citic Pacific, Beijing's main investment arm in Hong Kong, was not friendly, as Mr Li has claimed, and that it undervalued the company. He urged shareholders not to sell until they had received the opinion of an independent valuer.

Last week, Mr Li and Citic launched a cash bid for Miramar of HK\$15.5 a share and HK\$8.50 a warrant, valuing the company at HK\$8.7bn. The market's initial reaction was that the offer was too low and Miramar's shares have since been trading above the offer. Yesterday they closed at HK\$16.70.

Mr Young claimed in his letter that Miramar's property assets alone were "good enough to support (the company's) shares at HK\$30".

He said that Miramar was close to reaping the benefits of the work it had done in developing ties on the mainland.

Neither Citic or Mr Li had any comment to make on Mr Young's statement.

## Minnesota Brewing moves bottling line into China

By Tony Walker in Beijing

MINNESOTA Brewing Company, brewer of Landmark beer, is shifting one of its bottling lines to China under a Yuan\$7.5m (\$6.6m) agreement with the Zhengzhou Gold Star Beer Factory in the country's central Henan province.

"More bottling lines will be moved here when we finish the first phase of expansion," said Mr Li Jing, product promotion

manager of the Zhengzhou brewery.

Under the agreement, MBC will transfer its slack production lines to Zhengzhou, increasing output there to 150,000 tonnes from the present 100,000 tonnes. MBC's contribution will amount to Yuan\$14.8m.

The Zhengzhou brewery will keep its Gold Star brand, but will use Landmark packaging for the additional 50,000 tonnes.

## THE FIGURES SAY IT ALL.

1991/92 - % CHANGE

Customer deposits

+20.8

Loans to customers

+21.0

Net profit

+31.1

Total assets

+21.9

Shareholders' equity

+ 3.9

The 1992 figures speak for themselves. However, it is worth reflecting on the major developments which occurred in 1992 and contributed to such positive results. The merger with Citibank Italia allowed us to incorporate 47 branches, mainly located in Southern Italy. Furthermore, we opened 34 new branches in areas of particular economic interest.

As a result, we now benefit from the resources of a network of 500 branches. To this, we can add a further 500 sales points provided by Ambro Italia, which, together with the other Ambroveneto Group companies, offer a comprehensive range

Parent Bank's figures as at 31st December 1992

	US\$ m
Customer deposits	14,527
Loans to customers	12,806
Net profit	117
Total assets	26,202
Shareholders' equity	1,285

(Exchange Rate Lira/US\$ as at 31st December 1992: 1470.86)

of financial services including leasing, factoring, merchant banking, insurance and investment funds. Finally, 1992 saw the inauguration of our London branch, situated in the heart of the City. Financial results, territorial expansion, preferential agreements with major European banks and a network of 4,000 correspondent banks worldwide.

The figures involved speak for themselves. Add all the figures together and they indicate the steady growth of Barco Ambrosiano Veneto, which can rightly be regarded as Italy's Leading Private Bank.

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Tel.: (44-71) 2207740  
Representative Offices: Hong Kong, New York



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£250,000,000

Floating Rate Notes due 1994

In accordance with the provisions of the Notes, notice is hereby given that the Rate of Interest for the three month period ending 13th September, 1993 has been fixed at 6% per annum. The interest accruing for such three month period will be £154.52 per £10,000 Bearer Note, and £1,545.20 per £100,000 Bearer Note, on 13th September, 1993 against presentation of Coupon No. 14.



11th June, 1993

London Branch  
Agent Bank

ISTITUTO BANCARIO  
SAN PAOLO DI  
TORINO S.P.A.  
LONDON BRANCH  
EURO 150,000,000  
FLOATING RATE  
NOTES DEPOSITARY  
RECEIPTS DUE 1997

For the period  
June 16, 1993 to  
December 16, 1993  
the new rate has been  
fixed at 7.44219 % P.A.  
Next payment date:  
December 16, 1993  
Coupon nr: 3  
Amount:  
for the denomination  
of XEU 1,000  
XEU 378,-  
for the denomination  
of XEU 10,000  
XEU 3783,-  
for the denomination  
of XEU 100,000

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PAYING AGENT  
SOCIETE GENERALE  
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Reuter  
LUXEMBOURG

IRELAND

US\$300,000,000

Floating rate notes due

June 1998

In accordance with the  
provisions of the notes, notice  
is hereby given that for the six  
months period from 16 June  
1993 to 16 December 1993 the  
notes will carry an interest rate  
of 3.44% per annum. Interest  
payable on 16 December 1993  
will amount to US\$174.61 per  
US\$10,000 note and  
US\$1,746.11 per US\$250,000  
note.

Agent: Morgan Guaranty  
Trust Company  
JPMorgan

مكنا من المهرل



## Consortium bids for top Polish cement producer

By Christopher Bobinski  
in Warsaw

MANAGEMENT and workers, backed by a consortium of Polish banks and foreign investors, have offered to purchase the Gorazdow cement works, the country's largest and most modern cement producer.

The bid, which is being considered by Poland's privatisation ministry, is in competition with a three-year effort by CBR, the Belgian cement company, to purchase the plant.

The CBR offer, which includes the purchase of the Strzelce Opolskie cement works nearby, has been resisted by the trade unions at Gorazdow which want to see control of their plant stay in Polish hands.

The consortium's offer marks the first time that shop floor resistance to a foreign takeover has been transformed into a rival bid backed by Polish banks and foreign investors willing to take a minority stake.

The rival offer would see 35 per cent of the plant's equity go to management and employees while a further 16 per cent would be taken up by the Polish Development Bank and 10 per cent would go to the Bank Przemyslowo Handlowy from Krakow. Both banks are state owned.

Another 10 per cent would be purchased by Warta, a privatised insurance company, and 9 per cent by a British investment group. The US Congress-financed Polish American Enterprise Fund is interested in purchasing a 10 per cent share in Gorazdow while the remaining 10 per cent would be sold through a public offer.

Gorazdow reported sales worth 1,017bn zlotys (\$39.5m) last year with net profits of 88bn zlotys and is looking for sales to increase by 7 per cent this year. It produced 1.9m tonnes of cement, or 11.6 per cent of Poland's cement output, last year and accounted for a quarter of the country's cement exports.

## US triggers disclosure revolution

Latin American companies are changing their ways, says Damian Fraser

WHEN Telebras, Brazil's state-owned telephone company, makes its planned \$500m offering of American Depositary Receipts later this year, it will join 34 Latin American companies listed on Wall Street. Five years ago there were none.

The transformation is a clear illustration of the extent to which foreign investment is being encouraged to support companies' capital plans and plug the gaps left by Latin America's weak capital markets and low savings rates.

The phenomenon is most widespread in Mexico, where total foreign investment in the stock market is \$27.5bn, of which more than half is in US-traded ADRs. While this is around a fifth of Mexico's stock market capitalisation, analysts believe foreign investment accounts for more than 50 per cent of the volume of the most widely traded shares.

The result is that US investors, usually through pur-



Pedro Aspe hopes that reforms will benefit Mexican brokers

often dominates Mexico's market.

When Cementos Mexicanos (Cemex) bought the Spanish cement companies Sanson and Valenciana last year, US investors rushed to sell, worried at the prospect of the Mexican company becoming 40 per cent Spanish in terms of sales.

Mr Gustavo Caballero, Cemex finance director, says that US analysts did not believe a Mexican company was capable of taking such a

bold step into foreign business.

However, the dependence on foreign capital might improve the way some Latin American companies are run and analysed. Once controlled by just a few dominant shareholders, companies in the region often ignored minority investors.

"Latin American companies need a shake-up in the way they disclose information and what they say to the market," says Mr Terence Mahony, of Baring America Asset Management.

A growing number of companies are responding to US analysts' requests for information, and under US regulations face more stringent disclosure rules than they do at home.

On a recent holiday in New York, the head of the Mexican company Intercomarcas visited investors to explain his strategy - a move that would have been unthinkable a few years ago. Banamex (Mexico's largest bank), Bancomer (the second largest), Cemex and others have hired public relations firms in the US, and employ investor relations executives.

Local broking houses are changing their practices. In

Brazil companies used to be valued according to price-to-book value. But with the growing presence of foreigners, price-to-earnings value analysis has become more prevalent. Similarly, local brokers rarely made earnings forecasts, preferring to rely on historic earnings. Now almost all produce forecasts.

Even governments are beginning to wake up to the international competition their stock markets face. Chile recently reduced from three years to one the minimum period that foreigners had to hold initial capital in a stock before selling. Mexico has unveiled a series of reforms, allowing international stocks to be listed in Mexico and bringing regulations closer to US levels.

Mr Pedro Aspe, Mexico's finance minister, hopes that the reforms will bring share trading activity back to Mexico. This would enable local brokers to earn commissions from trading in Mexican stocks, since more foreign investment would be made in the underlying stock market in Mexico and not in the ADRs.

## Foodland to merge unit with NZ chain

By Bruce Jacques in Sydney  
and Terry Hall in Wellington

RATIONALISATION is continuing apace in the Australian and New Zealand grocery industries, with two deals announced yesterday worth a combined total of about \$A120m (US\$81m).

Foodland Associated, the Australian grocery group, will merge its New Zealand operations with those of Progressive Enterprises, one of the country's biggest supermarket chains.

The proposal follows the purchase by Foodland of a 38.6 per cent, NZ\$128.2m (US\$89.7m) stake in Progressive, formerly held by fellow Australian group Coles Myer. Progressive will pay NZ\$101m for Food-

land's New Zealand retail and wholesale assets by issuing 64.6m shares at NZ\$1.58 each.

Progressive said that with dividend entitlements and timing differences, the price was equal to the NZ\$2 a share paid by Foodland for Coles Myer's shares in Progressive.

The deal will make Progressive a subsidiary of Foodland, raising the latter's shareholding from 43 to 57 per cent.

The combined group would account for about 34 per cent of New Zealand's supermarket sales, making it the second largest such organisation in the country.

David Holdings, Australia's biggest food wholesaler, paid \$A37.8m for a 19.9 per cent stake in its South Australian rival, Independent Holdings.

## Hungary deal for Belgian developers

IMMOBILIERE de Belgique, the large Belgian property group, has paid BFR74m (\$2.2m) for a 35 per cent stake in Core, a Hungarian property developer, Reuter reports from Budapest.

The Belgian company has also committed at least a further BFR260m towards the construction of a business complex in Budapest.

Core has applied for a permit to build a business complex on an 18.6 hectare site in Budapest, the company said.

Immobel said that one of the German shareholders of EGBL Beteiligungs - a private holding company in which Immo- bel has a minority stake - had also bought a 35 per cent stake in Core.

## Canadian cinema group optimistic

CINEPLEX ODEON, the Canadian cinema and film distribution group controlled by the Montreal Brodeur family, expects to return to profit in the third quarter of this year, writes Robert Gibbens in Montreal.

The group made a first-quarter loss of US\$10.6m on revenues of \$116m, against a loss of \$13.5m on revenues of \$129m a year earlier.

Debt had been reduced from \$700m to \$385m, cash-flow was positive and operating expense was under control, Mr Allen Karp, president, told the AGM. In 1992 Cineplex lost \$41.3m on revenues of \$518m.

Although Cineplex has been heavily restructured, and theatres in several marginal US markets have been sold, it is still one of North America's largest cinema operators.

The group has 1,614 screens in 363 locations.

### NEWS DIGEST

UNIT TRUST of India, India's largest mutual fund group, is to launch its India Liberalisation Fund in the US, writes R. C. Murthy in Bombay.

This will be the third country fund, slated for launch in August-September, after a gap of more than four years.

The first, the sterling-denominated India Fund, was floated from Guernsey for \$75m (\$115.5m). This is to be converted into an open-ended fund from July 1.

India Growth Fund is dollar denominated and listed on the NYSE.

THE International Swap Dealers' Association, the trade group representing the derivatives industry, plans to change its name to International Swap

and Derivatives Association, writes Laurie Morse in Chicago.

"When ISDA was founded in 1985, the terms 'swaps' and 'over-the-counter derivatives' were virtually interchangeable," said Mr Joseph Bauman, ISDA chairman and head of global derivatives for Citibank.

"At that time our name accurately conveyed our focus," Mr Bauman explained. "In addition to interest rate and currency swaps, ISDA covers a variety of options-based products, 'swaptions', FX and currency options, OTC equity and commodity-linked transactions, and other instruments."

SYNTHELABO, part of the French L'Oréal group, has acquired Alcon's Couvreur Pharma, a Belgian company specialising in over-the-counter medicines, Reuter reports from Paris.

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COMPAGNIE GÉNÉRALE D'ÉLECTRICITÉ  
Corporation organized under French Law (Société anonyme)  
Capital: French Francs 5,552,156,448  
Head Office: 54, rue la Boétie - 75008 PARIS  
Registered Head Office: PARIS B 542 919 896

**SECOND NOTICE**

Due to the failure to reach the requested quorum for the General Meeting of the holders of 6 1/2% 1990-2000 Bonds of FRF 680 nominal value issued by ALCATEL ALSTHOM COMPAGNIE GÉNÉRALE D'ÉLECTRICITÉ convened on June 11, 1993, the holders of these bonds are convened to a new General Meeting to be held on 25th June 1993, at 9.00 a.m. at the office of the Compagnie Générale d'Électricité, 54, rue la Boétie, 75008 PARIS (France) on June 23, 1993 at 3.00 p.m. in order to deliberate on the same agenda as that of the former General Meeting, namely:

- Board of Directors' Report.
- Approval of the decisions proposed to the Mixed Meeting (Ordinary and Extraordinary) of shareholders, authorizing the board:
- to issue, with waiver of their preferential right:
- share warrants,
- bonds with share warrants,
- shares by presentation of securities issued by companies in which ALCATEL ALSTHOM COMPAGNIE GÉNÉRALE D'ÉLECTRICITÉ owns directly or indirectly, more than half of the capital.
- to use, in case of public offering to purchase or exchange shares, the authorizations given to it in order to raise the capital.
- Decision on the method of recording the documents of the General Meeting.

In order to permit the bondholders to attend, or to be represented at this meeting, the Bonds or their deposit receipts, must be deposited at least five days before the date of the meeting, with one of the banks having participated in the placement of these Bonds and from whom proxies or attestation cards can be requested. No quorum is required for this meeting.

THE BOARD OF DIRECTORS

**The Bear Stearns Companies Inc**  
A corporation organized under the laws of the State of Delaware, USA

**U.S. \$200,000,000**  
**Floating Rate Notes due 1994**

For the three month period 15th June, 1993 to 15th September, 1993 the Notes will carry an interest rate of 3% per annum with an interest amount of U.S. \$91.04 per U.S. \$100,000 Note payable on 15th September, 1993.

**Bankers Trust Company, London** **Agent Bank**

**DEVELOPMENT FUND OF ICELAND**  
(FRAMVIA/ÆMDASJODUR ISLANDS)  
(Established under the laws of the Republic of Iceland)

**U.S. \$35,000,000**  
**Floating Rate Notes 1997**

Retractable at holders' option in 1995

Notice is hereby given that the Rate of Interest has been fixed at 5.25% and that the interest payable on the relevant Interest Payment Date December 16, 1993 in respect of U.S.\$100,000 nominal of the Notes will be U.S.\$2,668.75.

June 16, 1993  
By: Citibank, N.A. (Issuer Services), Agent Bank **CITIBANK**

**U.S. \$200,000,000**  
**MARINE MIDLAND BANKS, INC.**

**Floating Rate Subordinated Notes Due 2000**

Interest Rate 5 1/4% p.a.

Interest Period 16th June 1993 to 16th September 1993

Interest Amount per U.S. \$100,000 Note due 16th September 1993 U.S. \$670.63

Credit Suisse First Bank Limited Agent

**U.S. \$5,500,000**  
**HMC MORTGAGE ASSETS**  
**102 PLC**

**Class B**  
**Mortgage Backed Floating Rate Notes due March 2001**

For the Interest Period from June 14, 1993 to September 14, 1993 the Rate of Interest has been fixed at 8.575% per annum. The interest payable on the relevant Interest Payment Date, September 14, 1993 will be £1,723.42 per £100,000 nominal amount.

By: The Chase Manhattan Bank, N.A. London, Agent Bank  
June 16, 1993

**Univision Television Group, Inc.**

Offer for All Outstanding Privately Placed 11 1/4% Senior Subordinated Notes due 2001

In Exchange for 11 1/4% Senior Subordinated Notes due 2001 Registered with the Securities and Exchange Commission

Univision Television Group, Inc. hereby gives notice of its offer, upon the terms and conditions set forth in the Prospectus and the Indenture, to exchange an aggregate principal amount of up to U.S. \$140,000,000 of its 11 1/4% Senior Subordinated Notes due 2001 registered with the Securities and Exchange Commission ("New Notes") for like principal Securities and Exchange Commission ("Old Notes") for like principal amount of its issued and outstanding privately placed 11 1/4% Senior Subordinated Notes due 2001 ("Old Notes").

To make such an irrevocable exchange, Holders should obtain an Exchange Notice from the offices of any Paying Agent, return a completed Exchange Notice with their Old Notes (with all unremitted coupons pertaining thereto) to the office of Bankers Trust Luxembourg S.A., 14 Boulevard F.D. Roosevelt, Luxembourg L-2450 on any business day from and including 16th June, 1993 to and including 16th August, 1993 (the "Exchange Period"). The Exchange Period will close at 17.00 hours Luxembourg time on 16th August, 1993. Univision Television Group, Inc. respectfully requests that Holders intending to exchange their Old Notes for New Notes submit their Exchange Notice to the above office of Bankers Trust Luxembourg S.A. at their earliest convenience.

Holders may obtain from the offices of any Paying Agent a Prospectus further detailing the Exchange Offer.

**Bankers Trust Company, London** **Agent Bank**

Notice of Early Redemption  
**BANQUE NATIONALE DE PARIS**

**USD 600,000,000**  
**Partly Paid Registered**  
**Floating Rate Notes Due 1995**  
**and**  
**Floating Rate Notes Due 1995**

Notice is hereby given that pursuant to paragraph (a) of the Condition Cancellation and Redemption of the Bonds, BNP has called for cancellation and redemption on the next Interest Payment Date falling on 21st July 1993 ("The Cancellation and Redemption Date") all the outstanding Bonds, at par. The Bonds will cease to accrue interest on the Cancellation and Redemption Date.

Payment of principal and accrued interest, if any, will be made to the persons shown on the register by transfer to the dollar account specified by the holder.

Fiscal Agent, Registrar and Transfer Agent:  
**Banque Nationale de Paris**  
(Luxembourg) S.A.  
24 Boulevard Royal  
L-2552 Luxembourg  
Luxembourg, 16th June 1993

**CNT**  
**Caisse Nationale des Télécommunications**

**FF 2,000,000,000**  
**Floating Rate Bonds due 1997**

Notice is hereby given that for the Interest Period 15th June, 1993 to 15th September, 1993 the Bonds will carry a Rate of Interest of 7.3789 per cent per annum with a **LIBOR** amount of FF 188.57 per FF 100,000 Bond and FF 1,885.72 per FF 100,000 Bond. The relevant Interest Payment Date will be 15th September, 1993.

**Bankers Trust Company, London** **Agent Bank**

**TRONOH MINES MALAYSIA BERHAD**  
(Incorporated in Malaysia)  
**NOTICE OF MEETING**

NOTICE IS HEREBY GIVEN that the Seventeenth Annual General Meeting of members of Tronoh Mines Malaysia Berhad will be held at the PNB Theatre, 2nd Floor, Menara PNB, 201A, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia on Tuesday, 13th July, 1993 at 11.00 a.m. for the following purposes:

To consider and, if thought fit, pass the following ordinary resolutions:

1. That the Directors' Report and Accounts for the year ended 31st January, 1993 and the Auditors' Report thereon be and are hereby received and adopted.
2. That the final dividend of 30 sen per share, less tax at 34%, be and is hereby approved and declared payable on 17th August, 1993 to members registered at the close of business on 23rd July, 1993.
3. That Tuan Haji Faisal Siraj, who retires by rotation, be and is hereby re-elected a Director of the Company.
4. That Tuan Haji Mokky bin Dato' Mahmood, who retires by rotation, be and is hereby re-elected a Director of the Company.
5. That Messrs KPMG Peat Marwick, who are eligible and have given their consent for re-appointment, be and are hereby re-appointed the Company's Auditors for the period until the conclusion of the next Annual General Meeting and that the remuneration to be paid to them be fixed by the Board.

By Order of the Board  
**AZLINA ABDUL AZIZ**  
**DARMAWATTI DAHARI**  
Secretaries

Kuala Lumpur  
16th June, 1993

NOTES:

- i) A member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and vote in his stead. A proxy need not be a member of the Company.
- A form of proxy to be valid must reach the Registrars' office at Pemas Chartered Management Sendirian Berhad, 32nd Floor, Menara PNB, 201A, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia or The United Kingdom Registrars' office at Barclays Registrars, Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TU, England not less than 48 hours before the meeting.
- There are no Directors' service contracts required by The London Stock Exchange to be made available for inspection at the meeting.

Fiduciary Issue by Kredietbank S.A. Luxembourgisee  
to fund a loan to be made by it to

**ISVEIMER**  
**Istituto per lo Sviluppo Economico**  
**dell'Italia Meridionale**  
**Italian Lire 150,000,000,000**  
**Floating Rate Notes due 1997**

In accordance with the Terms and Conditions of the Notes, notice is hereby given that for the Interest Period from June 16, 1993 to September 16, 1993 the Notes will carry an interest rate of 10.825% per annum.

The Interest Amount payable on the relevant Interest Payment Date, September 16, 1993 will be ITL 135,764 per ITL 5,000,000 principal amount of Note and ITL 2,715,278 per ITL 100,000,000 principal amount of Note.

The Agent Bank  
**Kredietbank S.A. Luxembourgisee**

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**NOTICE OF GENERAL MEETING**

The General Meeting of the Masse of the holders of the 2 per cent guaranteed Exchangeable Bonds due 2003 of SQUARE D Company, invited by a first notice to attend the General Meeting on 9th June 1993, having been unable to deliberate, the quorum being not present, the holders of such bonds are invited to attend the General Meeting to be held on 25th June 1993, at 9.00 a.m. at the office of the Compagnie Financière du CIC et de l'Union Européenne, 4 rue Gaillon PARIS 2<sup>e</sup>, to consider the following agenda:

- The report of the Board of Directors.
- The approval, subject to the decision of the General Meeting of the shareholders of SCHNEIDER S.A., of the authorization given to the board of Directors of SCHNEIDER S.A. to:
- issue shares of SCHNEIDER S.A. with or without warrants for a maximum nominal amount of FF 3 billion.
- issue bonds, other tradeable securities or subordinated securities which are convertible into, exchangeable for or reimbursable with, shares, for a maximum nominal amount of FF 5 billion.
- issue warrants representing subscription rights to an aggregate number of shares which can total no more than a nominal amount of FF 3 billion.

In connection with any such issuance of Securities and shares, SCHNEIDER's shareholders should renounce any preferential subscription rights.

- The approval, subject to the decision of the General Meeting of the shareholders of SCHNEIDER, of the authorization given to the Board of Directors to approve the issuance of shares in connection with the issuance, by companies in which SCHNEIDER holds, directly or indirectly, a majority of the outstanding share capital, of warrants, bonds, other tradeable securities or subordinated securities which are convertible into, exchangeable for or reimbursable with, shares. In connection with any issuance of shares, SCHNEIDER's shareholders should renounce any preferential subscription rights. Furthermore the issuance of any such shares is limited to an aggregate nominal capital increase of FF 3 billion.
- The nomination of two substitute representatives of the "Masse".

These representatives will be:

M. Eric FOREST  
74, avenue Fernand Lefèvre, 78300 POISSY  
Substitute of Mme de la TAILLE

M. Frédéric BOBO  
12, rue de Phalsbourg, 75017 PARIS  
Substitute of M. PETARD

In the event of death, retirement or renewal of one or more of the initial Representatives they will be automatically replaced by one of the substitutes.

- Any other business.

In order to attend or be represented at the meeting, holders of bonds must deposit, at least five clear days prior to the meeting at the head office, the certificate of deposit, issued by the bank, financial institution or stockbroker with whom the bonds are lodged.

THE BOARD OF DIRECTORS

**U.S. \$400,000,000**

**Santander Financial Issuances Limited**  
(Incorporated in the Cayman Islands with limited liability)  
**Subordinated Undated Variable Rate Notes**  
with payment of interest subject to the profits of and secured by a subordinated deposit with  
**Banco Santander, S.A.**  
(Incorporated in Spain with limited liability)

Notice is hereby given, that for the Interest Period from June 16, 1993 to September 16, 1993 the Notes will carry an interest rate of 4.125% per annum. The amount of interest payable on September 16, 1993 will be U.S. \$2,635.42 per U.S. \$250,000 principal amount of Notes.

By: The Chase Manhattan Bank, N.A.  
London, Agent Bank

**CHASE**

June 16, 1993



## INTERNATIONAL CAPITAL MARKETS

## Dollar sector provides focus of attention

By Sara Webb

BORROWERS scurried to the dollar sector of the Eurobond market yesterday, launching a total of more than \$1.2bn in new bonds.

Some issuers were wooed into the market by the release of favourable US inflation figures and dealers said the positive outlook was likely to encourage the launch of more Eurodollar deals in the immediate future, even though arbitrage opportunities were not seen as especially attractive.

Canada's Province of Ontario yesterday announced plans to issue a minimum US\$1bn global bond in the near future. LKB Baden-Württemberg, a state agency, is also

due to raise \$500m with an unusual Eurobond issue to be listed in both Luxembourg and Singapore.

Nomura, the lead manager for the triple-A rated deal, describes the issue as a "hybrid dragon-Eurobond" given that it is targeted at Asian and European investors and will have an Asian co-management group. The bonds were being priced at the end of the Hong Kong business day.

British Gas International Finance returned to the dollar market with a \$250m, 10-year deal. The borrower has launched deals in the Eurodollar sector recently and has seen yield spreads narrow substantially. The bonds were priced to yield 34 basis points over the US Treasury, and traded at 32-33 basis points over later in the day. The bonds were swapped

into fixed rate sterling.

Outside the dollar sector, the main talking point of the market was a successful FF1.5bn deal from Nestlé Enterprises, the holding company for the French operations of Nestlé.

BNP, the lead manager, claimed the yield spread at launch of 7 basis points over the French treasury bond is the "tightest spread done in the French franc sector" in recent memory.

At one stage the spread nar-

rowed to 3-4 basis points, reflecting the very strong institutional investor demand for the issue.

Dealers pointed to the rarity value as the main reason for the tight pricing and good investor demand.

## NEW INTERNATIONAL BOND ISSUES

Borrower	Amount	Coupon	Price	Maturity	Yield	Spread	Book runner
US DOLLARS							
US Eastern Wittenberg Fin.	500	6.25	101.50	Jul 2003	0.325R	+25 (84/4-03)	Nomura International
US West Communications	300	6.25	99.50R	Jul 1998	0.3R	+35 (84/4-03)	Morgan Stanley Int.
British Gas Int. Finance	250	6.25	99.50R	Jul 2003	0.325R	+34 (84/4-03)	BNP Paribas
Banco Credit	150	8.375	99.50R	Jun 1998	1.1R		Santander Investment Bank
Tokai Real Estate	100	6.25	100	Jul 1997	2.25		Deutsche Bank
Banco Barenbrant	40	10.25	99.5R	Dec 1995	1.15R		Paribas Capital Markets
YEN							
Inter-American Dev. Bank	400m	4.375	99.25R	Jun 1998	0.25R	+23 (4.8/4-98)	BNP International
D-MARKS							
European Investment Bank	500	8.375	101.57	Jul 1998	1.25R		DOZ
FRENCH FRANCS							
Nestlé Enterprises	1.5bn	6.5	99.834R	Jul 1998		+7 (84/4-98)	BNP
GUILLERMO							
SNS Group	250	7	100.5R	Jul 2003	0.3R	+22 (4)	St. van Hatten Labouchere

Final terms and non-callable unless stated. The yield spread (over relevant government bond) at launch is shown as the re-offer level. a) Fixed today, b) Floating, c) 21/05/93. Yield is over the interpolated yield curve.

## Treasuries improve in wake of inflation data

By Patrick Harverson  
in New York and Peter John  
in London

US TREASURY prices firmed across the maturity range yesterday morning in the wake of another set of positive inflation data.

By midday, the benchmark 30-year government bond was up  $\frac{1}{8}$  at 104 $\frac{1}{8}$ , yielding 6.794 per cent. At the short end, the two-year note was also firmer, up  $\frac{1}{8}$  at 100 $\frac{1}{8}$ , to yield 4.040 per cent.

The long-awaited May consumer price figures proved bullish for bond market sentiment. The Labor department announced that the consumer

price index last month rose 0.1 per cent, and the core rate (excluding the volatile food and energy components) rose 0.2 per cent.

The data was slightly better than analysts had forecast, and following last week's smaller-than-expected rise in producer prices, will help ease investors' fears about resurgent inflation. In particular, the May numbers make it unlikely that the Federal Reserve will raise interest rates to curb inflationary pres-

FT FIXED INTEREST INDICES									
	June 15	June 14	June 13	June 12	June 11	June 10	June 9	June 8	June 7
Govt 30Y	111.96	111.87	111.87	111.87	111.87	111.87	111.87	111.87	111.87
Govt 10Y	104.12	104.12	104.12	104.12	104.12	104.12	104.12	104.12	104.12
Govt 5Y	100.12	100.12	100.12	100.12	100.12	100.12	100.12	100.12	100.12
Govt 2Y	100.12	100.12	100.12	100.12	100.12	100.12	100.12	100.12	100.12
Corp 30Y	108.12	108.12	108.12	108.12	108.12	108.12	108.12	108.12	108.12
Corp 10Y	104.12	104.12	104.12	104.12	104.12	104.12	104.12	104.12	104.12
Corp 5Y	100.12	100.12	100.12	100.12	100.12	100.12	100.12	100.12	100.12
Corp 2Y	100.12	100.12	100.12	100.12	100.12	100.12	100.12	100.12	100.12

Source: FT Fixed Interest Indices. Data as at 11.00 AM GMT on June 15, 1993. All figures are in US dollars. The 30-year index is the yield on the 30-year Treasury bond. The 10-year index is the yield on the 10-year Treasury note. The 5-year index is the yield on the 5-year Treasury note. The 2-year index is the yield on the 2-year Treasury note. The corporate indices are the yields on the 30-year, 10-year, 5-year and 2-year corporate bonds. The 30-year corporate index is the yield on the 30-year corporate bond. The 10-year corporate index is the yield on the 10-year corporate bond. The 5-year corporate index is the yield on the 5-year corporate bond. The 2-year corporate index is the yield on the 2-year corporate bond.

sure in the economy, reducing much of the uncertainty that has dogged bonds for the past month.

Against this positive background, prices rose strongly in early trading. The initial gains, however, prompted some retail selling at the long end by mid-morning as investors moved to take profits.

The short end of the market held on to most of its gains as big hedge funds loaded up on shorter-dated securities in the anticipation that short-term US interest rates will not be going up soon.

GERMAN government bonds held yesterday as hopes of lower interest rates receded before today's repo announcement.

The September bond futures fell 0.20 to 94.86 during official trading, principally because of

BENCHMARK GOVERNMENT BONDS									
	Coupon	Price	Change	Yield	Week	Month	Year	High	Low
AUSTRALIA	6.500	105.02	+0.01	7.57	7.79	7.53			
BELGIUM	6.500	105.02	+0.01	7.57	7.79	7.53			
CANADA	7.250	105.02	+0.01	7.57	7.79	7.53			
DENMARK	6.000	105.02	+0.01	7.57	7.79	7.53			
FRANCE	6.000	105.02	+0.01	7.57	7.79	7.53			
GERMANY	6.000	105.02	+0.01	7.57	7.79	7.53			
ITALY	6.000	105.02	+0.01	7.57	7.79	7.53			
JAPAN	6.000	105.02	+0.01	7.57	7.79	7.53			
NETHERLANDS	6.000	105.02	+0.01	7.57	7.79	7.53			
SPAIN	6.000	105.02	+0.01	7.57	7.79	7.53			
UK GILTS	6.000	105.02	+0.01	7.57	7.79	7.53			
US TREASURY	6.000	105.02	+0.01	7.57	7.79	7.53			

Source: FT Benchmark Government Bonds. Data as at 11.00 AM GMT on June 15, 1993. All figures are in US dollars. The 30-year index is the yield on the 30-year Treasury bond. The 10-year index is the yield on the 10-year Treasury note. The 5-year index is the yield on the 5-year Treasury note. The 2-year index is the yield on the 2-year Treasury note. The corporate indices are the yields on the 30-year, 10-year, 5-year and 2-year corporate bonds. The 30-year corporate index is the yield on the 30-year corporate bond. The 10-year corporate index is the yield on the 10-year corporate bond. The 5-year corporate index is the yield on the 5-year corporate bond. The 2-year corporate index is the yield on the 2-year corporate bond.

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The chancellor's commitment to low inflation will be encouraging to the bond market but there is unlikely to be a great deal to latch on to in what is now seen as a general appraisal of the UK's economic position.

Dealers will look to the release tomorrow of the latest unemployment data and expect a rise of around 10,000 against three months of falls.

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## Italy outlines a flexible approach to borrowing

Haig Simonian says one option is a global dollar bond offering as its plans get back on track

THE Republic of Italy could be poised to issue one of the world's biggest global dollar bonds as borrowing gets back on track after political ups and downs earlier this year.

However, Mr Mario Draghi, director general of the treasury, stressed that the bond was just one of a range of options currently being considered.

Italy's flexible approach has been reflected in the treasury's two latest deals. Last month, it launched an innovative swap offer, giving investors in seven old Eurodollar bond issues the chance to exchange their paper for one of two new bonds, depending on maturity.

The deal, which raised around \$800m in fresh money thanks to new issues accompanying the swaps, was issued this month by a \$2bn issue of floating rate notes.

The two transactions showed that Italy's foreign borrowing plans, heralded by a DMSBN bond in late January, were back on track. When the D-Mark issue was launched, Mr Draghi said Italy hoped to raise between \$10bn and \$15bn on the Eurodollar market this year, depending on market conditions.

However, Italy's creditworthiness started to take a battering within days of the D-Mark deal as the widening political corruption scandal triggered a string of ministerial resigna-

tions and called the former Amato government's authority into question.

Political turmoil in turn raised uncertainties about Italy's ability to deal with its huge budget deficit, the core of its structural economic problems.

One reason for the republic's return to the Eurodollar market after a two-year absence was to switch borrowing away from relatively expensive domestic lira deals. Since the Amato government had some success in cutting spending and raising taxes, servicing costs on the deficit now account for the bulk of the government's funding requirements.

The political turmoil led to a volatile period in the domestic bond markets, which were additionally buffeted by the decision by Moody's, the US rating agency, to downgrade Italy's credit rating to A1 from Aaa.

However, there has been a marked return of confidence in recent weeks, which treasury officials say is not reflected in the ratings. The appointment of Mr Carlo Azeglio Ciampi, the former central bank governor, as prime minister convinced dealers further action would be taken to tackle the deficit. Meanwhile, recent referendum results suggest far-reaching political changes are now under way.

The decision to launch the bond swap was an attempt to "sound out the market and

tighten spreads," says Mr Alberto Giovannini, the Columbia University professor now working as a full-time adviser to the treasury. Although only about 10 per cent of the eligible bonds were exchanged for the new paper, Mr Giovannini said the treasury was pleased with the results.

"A lot of the professionally-held paper was locked up in asset swaps. And much of the retail sales had gone to Italian investors, who previously bought bonds free of withholding tax on the coupons," he said.

But Mr Giovannini stressed the treasury's objective was not to tease out the maximum amount of paper.

With fixed and floating rate dollar issues and a large D-Mark transaction under its belt, the treasury is now about half-way to meeting its \$10bn-\$15bn borrowing goal for 1993.

Mr Draghi stresses the range is flexible. "We don't want to force anything down the market's throat," he says.

"We're not pushing for tight spreads at any cost. We're looking for the equilibrium spread in line with what the market will take." With the risk of political upsets still present and the rating agencies so far sticking to their guns, the Italians cannot afford to take a more aggressive position at present.

## UK building society in PIBS issue

By Tracy Corrigan

NEWCASTLE Building Society, the UK's 26th largest building society, has placed its second issue of permanent interest-bearing shares (PIBS), via Charterhouse Finance, at the lowest yield achieved by any building society.

The £10m placement will be treated as core capital for building society capital adequacy purposes. The shares will pay fixed

interest of 10% per cent, yielding 240 basis points over the 9 per cent gilt due 2008. This represents a substantial reduction from the spread on Newcastle's first deal, launched last September at a yield margin of 360 basis points.

Spreads on PIBS issues have tightened substantially, partly due to unexpectedly strong demand from retail investors keen to buy relatively high-yielding assets in the current low interest rate environment. The tightening of spreads is

also attributed to a shortage of stock in some issues, such as the first Newcastle deal, which is now trading at a spread of 203 basis points. A PIBS issue launched by the Halifax, the UK's largest building society, in January 1992 at a spread of 275 basis points, is now trading at a spread of 170 basis points.

Given that the principal amount invested in PIBS is never repaid, some dealers think that spreads are now looking very tight.

## MARKET STATISTICS

## FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7.05 PM on June 15

ISIN	Issued	Old	Yield	ISIN	Issued	Old	Yield
US DOLLAR STRATEGIES				OTHER STRATEGIES			
ABN 8 1/4 94	200	100.12	8.125	ABN 8 1/4 94	200	100.12	8.125
ABN 8 1/4 94	200	100.12	8.125	ABN 8 1/4 94	200	100.12	8.125
ABN 8 1/4 94	200	100.12	8.125	ABN 8 1/4 94	200	100.12	8.125
ABN 8 1/4 94	200	100.12	8.125	ABN 8 1/4 94	200	100.12	8.125
ABN 8 1/4 94	200	100.12	8.125	ABN 8 1/4 94	200	100.12	8.125
ABN 8 1/4 94	200	100.12	8.125	ABN 8 1/4 94	200	100.12	8.125
ABN 8 1/4 94	200	100.12	8.125	ABN 8 1/4 94	200	100.12	8.125
ABN 8 1/4 94	200	100.12	8.125	ABN 8 1/4 94	200	100.12	8.125
ABN 8 1/4 94	200	100.12	8.125	ABN 8 1/4 94	200	100.12	8.125

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## RISES AND FALLS YESTERDAY

Source: FT Rises and Falls Yesterday. Data as at 7.05 PM on June 15, 1993. All figures are in US dollars. The 30-year index is the yield on the 30-year Treasury bond. The 10-year index is the yield on the 10-year Treasury note. The 5-year index is the yield on the 5-year Treasury note. The 2-year index is the yield on the 2-year Treasury note. The corporate indices are the yields on the 30-year, 10-year, 5-year and 2-year corporate bonds. The 30-year corporate index is the yield on the 30-year corporate bond. The 10-year corporate index is the yield on the 10-year corporate bond. The 5-year corporate index is the yield on the 5-year corporate bond. The 2-year corporate index is the yield on the 2-year corporate bond.

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## LIFFE EQUITY OPTIONS



## COMPANY NEWS: UK AND IRELAND

## Bradford Property falls to £21m

By Vanessa Houlder,  
Property Correspondent

BRADFORD Property Trust, the UK's largest tenanted residential property company, yesterday announced a fall in pre-tax profits from £28.1m to £21.1m for the 12 months to April 5.

The total dividend is increased by 21 per cent from 4.45p to 5.4p with a recommended final of 5p.

The dividend is increased to a level that matches the surplus from property rentals after payment of tax and preference dividend.

The company's business centres on buying tenanted properties at a discount to reflect

the statutory rights of sitting tenants under the Rent Acts and selling them with vacant possession.

Since the 1988 Housing Act, the company has been able to let property that becomes vacant free of rent controls. About 90 per cent of its portfolio is currently subject to rent controls.

Dealing profits were down, from £12.2m to £9.45m, reflecting the state of the housing market over the last year. However, the surplus from property rentals increased from £9.7m to £11.8m.

This partly reflected acquisitions of new property, including a portfolio from Asda Property. It also resulted from

larger rent increases.

The interest charge was £1.76m, against a credit last time of £15,000. That reflected the acquisition of property worth about £60m during the past two years.

Earnings per share fell from 10.76p to 9.87p. Net asset value per share fell from 175p to 170p.

## COMMENT

The City was prepared to overlook Bradford's fall in profits yesterday in favour of its exceptionally strong dividend prospects. This year's 21 per cent dividend increase may be followed by increases of between 15 per cent and 20 per cent for the next couple of

years, as rental surpluses swell. In addition to rent rises in its existing portfolio, the company may benefit from more acquisitions. With gearing of 15 per cent, the company could, in principle, sink another £100m into new acquisitions. But like the property sector as a whole, the shares are probably due for a period of consolidation. The shares, which yesterday dipped from 197p to 182p, are trading on a 7 per cent premium to assets, assuming a rise in net asset value to 180p next year. But taking a long term view, the shares should prove a rewarding play on an improvement in the residential property market.

## David Lloyd Leisure beats forecasts

By Richard Gourlay

DAVID LLOYD Leisure, the tennis court and health club group that floated earlier this year, exceeded its forecasts by returning interim profits ahead 64 per cent.

Pre-tax profits jumped from £1.06m to £1.94m on sales up 33 per cent at £8.75m. The large increase resulted from the inclusion of five new tennis and fitness centres that were not on stream in the first half of last year.

Mr David Lloyd, who launched the group after running similar centres in North America, said the group was ahead of schedule for the opening of its latest club in Glasgow.

Profits from existing clubs grew by about 7 per cent, held back by less than usual growth in profits from bowling.

Mr David Gray, finance director, said the main growth would continue to come from the introduction of new centres which brought with them an immediate increase in memberships. The group plans to introduce two new clubs a year.

Earnings per share rose from 2.8p to 4.1p. As forecast there will be no interim dividend; first payment will be at the end of the first full year.

Mr Lloyd said that profits were normally heavily skewed towards the second half of the year but, because of the introduction of the new centres, that would not be so marked this year.

Nevertheless, the group was on target to hit the £5.5m pre-tax profit forecast made at the time of the flotation.

## Organic progress behind Volex advance to £7.3m

By Peter Pearce

VOLEX GROUP, the electrical interconnection products company whose chief executive was headhunted by Farnell Electronics in May, doubled profits in the year to March 31.

The shares rose 18p to 405p. The rise from £3.68m to £7.34m was struck on turnover up from £81.6m to £106.1m. Mr Ken Hooper, finance director, said it was difficult to say how much of the advance was organic growth and how much derived from acquisitions.

Because of the way the new companies had been woven into the group. However, Mr Bill Goodall, chairman, said that the result contained a "good amount" of organic progress.

During the year, Volex spent £8.5m on acquisitions. It added Icomtec in July 1992 and Com-

ponent Manufacturing Systems in January 1993 to its Cable Products operation in the US.

In October 1992 it also bought a 60 per cent stake in Mayor, the Singapore-based maker of data and power cord assemblies.

Guided by Mr Howard Poulson, the outgoing chief executive described by Mr Goodall as "a good strategic thinker", Volex has become a worldwide supplier of cable assemblies to the computer, medical and instrumentation markets.

Mr Goodall said this global strategy was a lesson learned from the wiring systems side, which supplies the automotive industry. Here Volex has withdrawn from supplying volume car manufacturers - which opted for global suppliers - and has instead targeted markets such as off-road and agricultural vehicles, sports and

specialist cars, Rolls-Royce and Aston Martin. The division is being restructured and the St Helens factory was closed. There was also a £654,000 bad debt provision from Leyland DAF taken as an exceptional charge.

Some 40 per cent of the growth at Pancon, the UK maker of power cords, was organic, the company said, and £3m of the group's £7.8m capital expenditure allowed capacity to be increased. Legislation for the pre-fitting of plugs to electrical appliances is expected this year.

January's £17.5m rights issue helped increase shareholders' funds to £38.7m (£29.5m) and at the year-end, Volex had net positive funds of £5.9m. The final dividend is lifted to 11.35p for a 17.85p (17p) total, payable from earnings of 22.5p (14.9p) per share.

## Johnson Fry launches utility trust

By Philip Coggan,  
Personal Finance Editor

JOHNSON FRY, the financial services company best known for its business expansion schemes, is launching its first investment trust. The Johnson Fry Utilities Trust will buy shares in privatised water, electricity, telecommunications and gas companies.

The trust will have a split capital structure with ordinary income and zero dividend preference shares. The zeros will have first claim on the assets of the trust and will grow at a rate equivalent to a gross redemption yield of 8 per cent per year over the trust's 10 year life.

The income shares will receive all the dividends and the remaining assets after the zeros have been repaid. The initial gross yield on the income shares is expected to be 9 per cent. Assets will have to grow at 3.7 per cent per year for the income shares to be repaid at their issue price of 100p.

Some 75 per cent of the portfolio will be in utilities. The remaining 25 per cent will be invested in irredeemable preference shares, to help boost the overall yield. Further income will be earned by writing call options against part of the trust's utility holdings.

The trust aims to raise £40m, including £10m worth of zero

dividend preference shares. The issue expenses have been capped at 4.2 per cent and the manager's annual fee will be 0.5 per cent of assets.

Applications must be for a minimum of £3,000. Those who opt for the income shares can place them in a personal equity plan for an additional charge of £30 per year.

There is also the facility for a share exchange for those who own shares from previous privatisations. The trust will buy shares at the bid price at no dealing charge. Any exchanges, however, must be made on top of an additional cash investment of £3,000.

The issue is sponsored by Smith New Court and will

close on July 6 (for income shares) and July 8 (for zeros).

## COMMENT

A portfolio of utility shares is such a natural choice for private investors that it is surprising no-one has launched an investment trust in this area before. The question is whether utilities have had such a good run that the trust is being launched at the top of the cycle. Certainly, with 25 per cent of the portfolio in preference shares, prospects for capital growth may be limited, given that income holders already need 3.7 per cent annual growth in assets just to get their money back. That said, the recent falls in interest rates have created demand for high-yielding equity investments and this ought to be a safer than most. The zeros, which yield 8 per cent and are well covered, may be especially appealing to higher rate taxpayers.

## Reduction in fee income leaves AJ Archer £0.3m in the red

By Richard Lapper

A FALL IN fee income from its syndicates pushed AJ Archer, the Lloyd's agency, into the red at the interim stage.

Pre-tax losses for the six months to March 31 of £292,000 compared with profits of £267,000 last time.

Capacity of the group's syndicates fell from £368m in 1992 to £201m. Profit commission on the syndicates in the 1990 year fell to £300,000 compared with £700,000 in 1989.

Losses per share were 1p, against earnings of

0.7p. The interim dividend is cut to 0.5p (2.2p).

The group also announced the completion of its agreement, originally announced in March, to buy Castle Holdings, a rival Lloyd's agency. Consideration is 11.2m new shares - valued at £5.2m - and options over a further 1.27m shares.

In addition, the vendors will be entitled to receive 50 per cent of the aggregate profit commissions attributable to Castle's syndicates for underwriting years from 1990 to 1993.

This notice is issued in compliance with the requirements of The International Stock Exchange of the United Kingdom and the Republic of Ireland Limited (the "London Stock Exchange"). It does not constitute an invitation to the public to subscribe for or purchase any securities. Application has been made to the London Stock Exchange for admission to the Official List of all the Zero Dividend Preference Shares of 1p each to be issued by the Company. It is expected that admission will become effective and that dealings in the Zero Dividend Preference Shares will commence on 23rd June 1993.

River & Mercantile  
Extra Income Trust PLC

(Incorporated in England and Wales under the Companies Act 1985. Registered Number 2421217)

Open Offer  
to Shareholders and Warrantheolders  
of  
10,000,000 Zero Dividend Preference Shares  
at 100p per share

Share Capital (following the Open Offer)		Issued	
£	Number	£	Number
520,000	52,000,000	371,430	37,142,982
100,000	10,000,000	100,000	10,000,000
			Ordinary Shares
			Zero Dividend Preference Shares

River & Mercantile Extra Income Trust PLC was formed in 1989 to provide high and growing income together with capital appreciation. Listing particulars relating to the Company are available and may be obtained during normal business hours on any weekday, (Saturdays and bank holidays excepted) up to and including 30th June 1993 from:-

River & Mercantile Extra Income Trust PLC,  
7, Lincoln's Inn Fields,  
London WC2A 3BP

S.G. Warburg Securities Ltd.,  
1 Finsbury Avenue,  
London EC2M 2EA  
a member of the Securities  
and Futures Authority

Copies of the listing particulars are also available (by collection only) from the Company Announcements Office, the London Stock Exchange, the London Stock Exchange Tower, Old Broad Street, London EC2N 1HP, up to and including 18th June 1993.

16th June 1993

THE "SHELL"  
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P.L.C.

Notice is hereby given that a balance of the Register will be struck on Friday, 2nd July, 1993 for the preparation of the half-yearly dividend payable on the SECOND PREFERENCE SHARES for the six months ending 31st July, 1993. The dividend will be paid on 31st July, 1993.

For Transferees to receive this dividend, their transfers must be lodged with the Company's Registrar, Lloyds Bank Plc, Registrar's Department, The Causeway, Worthing, West Sussex, BN9 6DA, not later than 2.00 p.m. on Friday, 2nd July, 1993.

By Order of the Board  
J.A. Conolly  
Secretary

SCOTLAND INTERNATIONAL  
FINANCE BV.  
US\$50,000,000

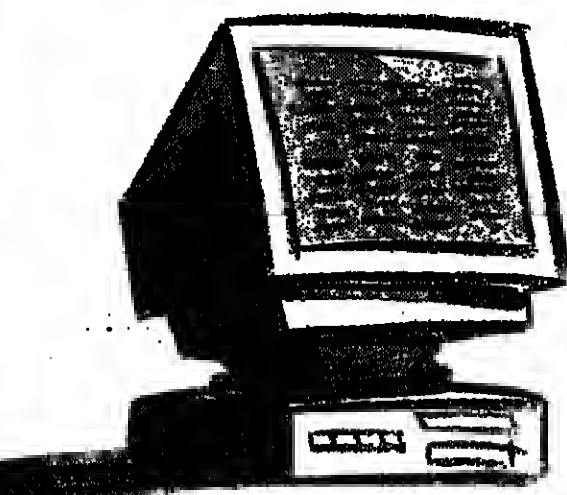
14 3/4% Guaranteed Fixed/Floating Rate Notes 1996.

For the six months from 16th June 1993 to 15th December 1993 inclusive the Notes will carry an interest rate of 5 3/4% per annum.

The relevant interest payment date will be 16th December 1993.

Coupon 12 will be for US\$26.69.

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## Mandatory £87m bid for Watts Blake

By Andrew Taylor,  
Construction Correspondent

**WATTS BLAKE** Bearn, a 280-year business based in Devon and the world's biggest supplier of ball clay, is in danger of losing its independence following the launch yesterday of a £87m bid.

Sibelco, a privately owned producer of silica sand for the glass industry based in Belgium, is bidding £20p cash per share for the British group.

The offer failed to win unanimous approval from the City. "This is a quality company with a unique product and unique assets. The price does not reflect the true long-term potential of the group," said Mr Ian Hilliker, an analyst with NatWest Securities.

Watts Blake shares, however, failed to rise above the offer price, and later fell back to 415p, a net gain of 24p.

There is a loan note alternative on the basis of £21 for every five shares. The notes carry interest at 4.75 per cent and are redeemable at par in September 1994.

The bid was sparked by a decision earlier this year by Ceramics Holdings, controlled by the Lebanese Gargour family, to dispose of its 15.6 per cent stake.

This triggered a concert party agreement under which Sibelco and Quarzwerke of Germany, each owning 14.8 per cent, were also required to put their stakes up for sale. The agreement also provided a formula allowing the partners to buy each other out.

The combined offer for sale lapsed last month leaving Sibelco free to launch its own bid yesterday.

Sibelco said yesterday it has arranged to buy the stakes of Ceramics and Quarzwerke. This would take its holding to 45.2 per cent, leaving it only 4.9 per cent short of winning majority control.

It said the Stock Exchange requirement to make an offer once the holding had gone

above 30 per cent was the impetus for the bid, rather than a desire to take over the company.

"The purchase of the Ceramics stake really was a tidy up operation. Rather than have the stake overhanging the market, we decided to buy it."

Sibelco intimated that it was still "early days" to say what it would do with Watts Blake if it acquired control. However, it had always held the current management of Watts Blake in high regard.

Heavy sticky ball clay, which once produced tobacco pipes, is used worldwide to manufacture ceramics such as sanitary ware, wall and floor tiles and tableware. The largest deposit in the world, found in Bovey Basin near Newton Abbot in Devon, has been mined by the company since 1710.

Watts Blake also owns extensive clay reserves in Germany and in the US where in 1989 it bought United Clays, the second biggest ball clay producer in that country.

The company generates 85 per cent of its sales outside the UK, and estimates that it provides clay for 40 per cent of the European sanitary ware market, a third of the US market and half of the Far East market. It also claims to supply a quarter of the European and US floor tile market.

Ceramics is thought to need new funds to support its other business interests; it has unconditionally agreed to sell its shares to Sibelco at this offer price.

Quarzwerke, a private company producing silica sand, has also agreed to sell its shares "subject to Sibelco's ability to purchase shares under the City Code."

The concert party agreement, negotiated in 1990, arose after Sibelco and Quarzwerke acquired the 21 per cent holding in Watts Blake previously held by English China Clay. They subsequently increased their stake when Ceramics sold part of its holdings to the continental European companies.

## Growth found in its customers' footsteps

Andrew Bolger on the strategy of Tibbett & Britten

**S**OUTH AFRICA, Canada and Portugal might seem an eclectic group of countries for a UK distribution and warehousing specialist to choose for its overseas expansion plans.

However, these varied territories are the focus for the rapidly growing international activities of Tibbett & Britten Group, the company previously best known for distributing garments in the UK for Marks and Spencer.

The common theme is Unilever, the Anglo-Dutch consumer products group which sold its stake in Tibbett to a management buy-out in 1984. The distributor has maintained a close relationship with its former parent, and Tibbett's businesses in the three countries all have their origins in that connection.

Mr John Harvey, Tibbett's chairman, said the overseas moves were in line with his group's strategy of following its multinational customers and then developing related business around these core contracts.

Mr Harvey was the director of Unilever who initiated the multinational's investment in Tibbett and led the management buy-out. He said: "We've got lots of buddies in Unilever

and have always kept in touch."

The connection was underlined this month when Tibbett appointed Mr Michael Johnson, 58, as non-executive director. He had retired as head of information technology for Unilever in January, after 30 years. For

Africa) was acquired.

Tibbett's market capitalisation has grown tenfold since it came to the market in 1986, and has almost doubled since 1990. Last year it made a £31m rights issue to fund the acquisition of Silcock Express, a private company which distrib-

purchase of Lowfield, the grocery distributor, in 1989 for £12.5m.

Mr Harvey said he preferred to grow business, rather than make acquisitions. His priority was now to infill in Europe behind the Silcock openings, particularly in France, Spain and Portugal. There were obvious gaps in Silcock's network, such as Germany and Italy.

The group also intends to reinforce its investment in Canada and South Africa. Mr Harvey said there were plenty of opportunities in North America, but he intended to stick to Canada until they had built a significant regional base.

On South Africa, he co-ordinated: "It is an unstable area, there's obviously some risk. But if you're taking a medium to long-term view, places like South Africa and China must be considered."

Tibbett has moved substantially away from its dependence on Marks and Spencer, which generated 60 per cent of turnover at the 1986 flotation. Although the M&S business has since grown three-fold, it currently accounts for only 11 per cent of group sales.

Concern about preserving M&S's commercial confidentiality has prevented Tibbett

**Last year the UK generated more than 90 per cent of group sales, but by the end of this year overseas operations should account for more than 25 per cent**

the last three years he had been responsible for Unilever's information technology policies, designed to take advantage of the capability of open systems.

By maintaining Unilever-type reporting systems and financial disciplines, Tibbett has found it easy to do business with other multinationals.

This policy of establishing bridgeheads was clearly demonstrated in South Africa. Last June Tibbett paid Unilever £2m for SA Warehousing Services, which distributes throughout South Africa for Unilever and others. In November the total food distribution operation of Woolworth (South

otes motor vehicles in the UK, France, Belgium, Spain and Portugal.

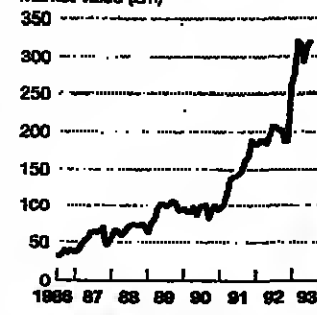
The deal added motors to the group's four existing distribution specialities in fast-moving consumer goods, which include clothing and textiles, toiletries and cosmetics, groceries and DIY and electrical products.

Tibbett now operates in eight countries. Last year, the UK generated more than 90 per cent of group sales, but by the end of this year overseas operations should account for more than 25 per cent.

Despite this rapid spurt of growth Tibbett has made relatively few acquisitions. Its previous important deal was the

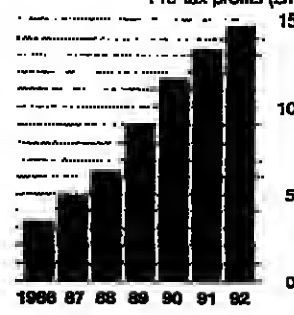
**Tibbett & Britten**

Market value (£m)



Source: Datastream

Pre-tax profits (£m)



from giving a detailed breakdown of its results by division, but it seems likely that it will in future.

Despite what it described as "difficult trading conditions everywhere", Tibbett's sales rose 28 per cent to £231.8m last year. The group said 69 per cent of its growth was generated organically while 30 per cent of revenue was contractually based.

Development was particularly strong in the consumer and personal products divisions.

Although trading continues to be depressed in the clothing and textiles division, Mr Harvey said he was happy to keep the Fashion Logistics network, the biggest single specialised clothing distributor in Europe, which supplies 35 per cent of

UK market outside the big chains. The Marks and Spencer business evolved out of the network, and it remains a potential source of separate dedicated distribution operations.

Clothing and motors offer the best hope of recovery and growth in the medium term. The group cites market research last year which forecast a 30 per cent increase in total new car and light vehicle registrations between 1992 and 1996 in the five countries where Silcock operates, with growth particularly in the UK, Spain and Portugal.

Mr Harvey is anxious not to raise expectations too much, but seems quietly confident about winning new business. "We have never been busier quoting."

### CONTRACTS & TENDERS

#### BUILDING OF A HOTEL FOR A MAJOR AIRPORT

Aeroporti di Roma S.p.A., the Company in charge of Rome's airport network, hereby announces its intention to offer to a subcontractor the direct management, including the design and construction, of a new first class (four-star, by Italian standards) hotel complex indicatively of 400 (four hundred) rooms, to be situated in the centre of Leonardo da Vinci Intercontinental Airport at Fiumicino, Rome.

Aeroporti di Roma reserves the right to select the most suitable candidates among the companies expressing an interest in this project.

Any hotel chains that may be interested should apply in writing, enclosing a general profile of their company and making specific reference to any hotels of at least four-star category, operated under a single registered name with international acclaim. These should be no fewer than 15 (fifteen) in number, and should have at least 250 (two hundred and fifty) rooms.

All applications, which shall in no way be legally binding on Aeroporti di Roma, should reach the following address at the latest by 10.00 hours on July 15, 1993:

Aeroporti di Roma S.p.A.  
Ente Commerciale e Marketing  
Via dell'Aeroporto di Fiumicino  
00050 Fiumicino Aeroporto  
(Fax 396/65953956)

The Managing Director  
(Alberto Morandi)

**Aeroporti  
di Roma**

### LEGAL NOTICES

In the bankruptcy proceedings of

**NORTHERN FEATHER**

INTERNATIONAL N.V.

of Rotterdam (formerly Oosterhoof), the Netherlands, the district Court of Rotterdam has ordered that all claims against Northern Feather International N.V. should be submitted to the receiver before 21st June 1993 and that the meeting of creditors for the proof of claims shall be held on 20th July 1993, 14.00 hours at the Court House at Noordwal 117 in Rotterdam, the Netherlands.

Creditors may obtain information from

Mr G.R. Oomen, Advocaat aan de Rechterbank, Woning 666, P.O. Box 190,

3000 AD Rotterdam, the Netherlands.

Tel: 31.10.404.21.11, Fax: 31.10.404.23.33.

The Receiver

Mr J.M. van der Wijk, van Hestel

Thuis: Van Duuren

Direct Entertainment Limited

(in Receivership & Liquidation)

Telephone: Limited (in Receivership)

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**DAIRY  
CREST**



This announcement appears as a matter of record only.



První brněnská strojnírna Brno, a.s. ("PBS")

and

ABB Asea Brown Boveri

have formed

ABB První brněnská strojnírna Brno s.r.o.

a new joint venture company which will take over the power plant, boiler and turbine businesses of PBS

The undersigned acted as strategic adviser to PBS, and assisted in negotiations.

**IFC** International Finance Corporation

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April 15, 1993

Brno, Czech Republic

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(Incorporated in England)  
under the Companies Act 1929 with Registered No. 301304

Issue of Warrants to Ordinary Shareholders to subscribe for up to 10,903,286 new Ordinary shares of 5p each at 175p per share in 1996 in 1998

Application has been made to the London Stock Exchange for the Warrants to be admitted to the Official List. It is expected that dealings in the Warrants will commence on 21 June 1993.

Copies of the Circular to Shareholders dated 29th April 1993 and the Stock Exchange announcement of that date relating to the issue may be obtained during normal business hours on any weekday (Saturdays and public holidays excepted) from the Company Announcements Office of the London Stock Exchange, Stock Exchange Tower, Capital Court, Bank, off Bartholomew Lane, London EC2N 1HP up to and including 18th June 1993, and from the registered office of the Company at St Vincent's, Grantham, Lincolnshire NG31 9EJ up to and including 30th June 1993.

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16th June 1993

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### LEGAL NOTICES

#### PONDUS LIMITED

Formerly Mayflower Capital Market & Treasury Services Limited  
NOTICE IS HEREBY GIVEN Pursuant to section 96 of the Companies Act 1985 that a Meeting of Creditors of the above named company will be held at 1-11 Hay Hill, London, W1X 7LS, on 23 June, 1993, from 2.45 pm for the purposes mentioned in section 100 and 101 of the said Act. David Lowe of Cooper Lancaster, Solicitors, 100 Hay Hill, London, W1X 7LS is a person qualified to act as an insolvency practitioner in relation to the company who will during the period before the day of the meeting, furnish creditors free of charge with such information as they may reasonably require.  
By Order of the Board  
C. J. Male  
Director  
11 June, 1993

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## COMPANY NEWS: UK

# Manweb staying close to basics

By Michael Smith

MANWEB, the electricity company which distributes in Liverpool and North Wales, yesterday re-affirmed its strategy of concentrating on its basic businesses as it announced a 15 per cent increase in dividends.

Acknowledging pressure from some City sources to use its low gearing to diversify, Mr John Roberts, chief executive, said: "We want to stay close to the core. We will resist the temptation to take on businesses we cannot manage sensibly."

Manweb is the only one of the 13 regional electricity companies which is not involved in building combined cycle gas stations.

The total dividend increase from 18.25p to 21p for the year ended March 31 1993 was the latest in a series of double figure percentage rises among electricity companies. It was achieved on profits before tax of £11.2m, up 17 per cent on the previous £9.4m. Turnover was £919.9m (£834.6m).

Earnings per share rose 18 per cent to 69.3p (58.7p). The final dividend is 14.5p.

Although distribution, the



John Roberts: acknowledging pressure to diversify

main earner, saw profits fall from £106.3m to £101.4m, supply turned a £5.3m loss into a £6.9m profit and retailing converted a £2.1m loss into a £500,000 profit.

On the supply side, Manweb won back the custom of 38 local large consumers who chose in previous years to contract with other regional electricity companies after the liberalisation of the market for users of more than 1MW. It

also won the custom of 16 new customers outside the region.

Mr John Astall, finance director, indicated the company had less to lose than other regional electricity companies from the further liberalisation of the market next year. He said only 9.5 per cent of its customers were in the section of the market where competition is being introduced (between 100kW and 1MW), whereas the regional

electricity companies average was 15.5 per cent.

The company's drive to cut staff has slowed, with only 100 jobs shed in the last year. However, it said profit per employee had improved by 15 per cent to £24,000 during the year.

Manweb already claims to have reduced staff by more than other regional electricity companies, with the total in the business now 4,350. Of these 3,465 are in the core business, a 25 per cent reduction on when the company was privatised.

The company plans to invest £12.5m on a network management system which will monitor transmission equipment and switchgear automatically. It expects to save £3m to £3.5m a year when the system is fully running.

Mr Bryan Weston, chairman, said the annual report would show that executive salaries rose by about the cost of living for the year just ended.

The pay bill for all staff will rise by about 3.5 per cent as result of a deal being considered by union members. The basic increase is 2.85 per cent, but the pay and reward system is also being restructured.

# Coats regains control of Indian side

By Angus Foster

COATS VIYELLA, the textiles and clothing company, is taking advantage of India's relaxation of foreign investment rules by taking control of its Indian associate, Madura Coats.

Coats has increased its stake in the company, which is to be renamed Coats

Viyella India, from 39.9 per cent to 51 per cent. The total investment of Rs604m (£12.25m) is payable in three tranches spread between now and next year.

The Indian operations were wholly owned until 1972 when the company was forced by changes in legislation to reduce its holding below 50 per cent. Following a relaxation of the rules on foreign share

holdings, Coats applied last year for government approval to again increase its stake.

It will lift its holding through a preferential share offer at Rs65 a share, a steep discount to the recent market price of Rs75. The offer, which was approved by shareholders last month, will be followed by a rights issue next year at Rs30.

## NEWS DIGEST

### Sheriff recovers to £465,000

SHERIFF HOLDINGS, the USM-quoted plant hire group, reported pre-tax profits sharply higher at £465,000, compared with £161,000, in the six months to March 31. The shares closed 11p higher at 111p.

The result - achieved on turnover ahead 21 per cent at £5.7m - was achieved by strict financial control of the core business and recent acquisitions, said Mr Richard Dunn, chairman.

In December, the group raised £2.85m net of new equity and this, together with strong cash generation, virtually eliminated borrowings at the half year, said Mr Dunn. Gearing at March 31 was 2 per cent, compared with 48 per cent six months earlier.

The interim dividend is raised from 1p to 1.25p, payable from earnings per share of 3.5p (1.7p).

### Wellman improves but cuts dividend

Without the burden of closure costs this time, Wellman lifted pre-tax profit from £231,000 to £261,000 in the year ended March 31. The dividend, however, is reduced from 2.2p to 0.9p.

Mr Geoffrey Iley, chairman of this specialist engineer, said activity in all markets was lower but the result was

broadly in line with expectations. Margins were under pressure and with no indication of an immediate upturn, the cost base would continue to be adjusted where necessary.

The forward order book, he added, was higher than last year but prospective margins had been eroded.

Turnover came to £23.7m (£24m) and trading profit to £796,000 (£1.02m). There was a £250,000 provision for further rationalisation, while last year's extraordinary £317,000 for closure costs has been adjusted to above the line under FR3.

Turnover included £1.87m from acquisitions (£1.36m from discontinued operations) and the respective figures in the trading profit were £101,000 (£75,000).

Earnings per share doubled to 1p. The dividend is reduced to keep in line with earnings; the final is 0.6p.

### Ldn & Clydeside in black at midway

London & Clydeside Holdings, the USM-quoted housebuilder operating throughout Scotland, turned round from a loss of £120,000 to a pre-tax profit of £34,000 in the six months to March 31.

Turnover fell to £8.47m, against £10.8m, which included a £2.5m property disposal. Operating profit was down to £252,000 (£397,000) because 1991-92 benefited from £220,000 from associates.

Net interest payable, however, dropped to £488,000 (£517,000).

The interim dividend is held at 1.5p, payable from earnings per share of 0.2p (losses 0.6p).

House reservations in January, February and March showed considerable improvement and although the month-on-month increase had reduced, there seemed to be an underlying recovery in the market, directors stated.

Although there were some modest price increases, it would be some time before that was reflected in unit margins.

### High Gosforth Park losses cut to £21,000

Pre-tax losses at High Gosforth Park, operator of the Newcastle racecourse, were more than halved - from £46,000 to £21,000 - in the 1992 year. Last year there was an exceptional charge of £60,000.

The outcome was struck on turnover up £90,000 to £1.3m. However, the cost of sales increased by 13 per cent from £592,000 to £1.01m and at the operating level there was a loss of £52,000 against £29,000 last time.

Losses per share came out at 27.7p (£2.9p) and there is no dividend this year - last year a final of 15p was paid.

### Monarch Resources losses deepen

Lower gold prices and reduced output continued to affect Monarch Resources, the London-quoted mining and exploration company with activities in Venezuela, throughout 1992.

The combination left the Revenin processing plant with

losses of £1.84m, against profits of £186,000. Monarch's overall loss increased from £2.94m to £4.87m (£3.2m). Turnover fell to £6.97m (£9.35m).

Losses per share came out at 33.2 cents (20.6 cents).

### F&C Smaller net assets advance 27%

Foreign & Colonial Smaller Companies lifted net asset value per share by 27 per cent - from 107.3p to 136.1p per share - over the 12 months to April 30.

The trust reported net revenue of £1.79m (£1.78m) for earnings of 1.99p (£1.97p) per share. A proposed final dividend of 1.16p brings the total for the year to 1.31p (£1.25p).

### Melville Street net assets dip to 140p

Melville Street Investments, an investment trust specialising in venture and development capital, saw net asset value fall 10p to 140p over the year to April 30.

Directors said the fall was largely attributable to the reduced value of one of the group's investments in the Lloyds insurance market.

Net revenue edged ahead to £800,758 (£790,887), equivalent to earnings of 4.5p (£4.2p) per share.

A same-again final dividend of 2.5p maintains the total at 4p but directors warned that some reduction in the distribution may become necessary as the company becomes fully invested. It currently has £3m on deposit.

# Dairy Crest confirms float plan

By Maggie Urry

DAIRY CREST, the milk and dairy products arm of the Milk Marketing Board, has confirmed its plan to float early next year.

It made the announcement when reporting a rise in pre-tax profits from £24.6m to £28.2m for the year to March 31, after exceptional restructuring costs of £26.5m (£20.9m).

Mr Geoffrey John, chairman, said that there were still many unknowns in the flotation and the industry itself was undergoing far-reaching change.

He said it was too early to be precise about the shareholder structure after the flotation, but that dairy farmers could hold about 70 per cent of the capital.

The farmers will receive shares representing the "free reserves" of the MMB, worth on average £8,000 per farmer, and will be offered shares or cash to settle their entitlement to the MMB's "rolling fund", totalling about £60m.

Dairy Crest also plans to raise new money and the group's market capitalisation could be about £250m. Schroders and Hoare Govett will be handling the flotation.

Mr John Houlston, chief executive, said that Dairy Crest had achieved a great deal but still had much to do to succeed in the "new world". He said: "We have no illusions as to the nature of the challenge that awaits us."

He said that when the MMB was abolished next year, Dairy Crest's first duty would be "to buy milk on a very competitive basis". He added that Dairy Crest was not committed to buying from Milk Marque, the milk buying co-operative which the MMB is planning as its successor.

Group turnover was unchanged at £1.16bn, although Dairy Crest, which is the buyer of last resort under the existing milk scheme, had bought 5.5 per cent less milk as milk quotas reduced production. Prices of milk for manufacture rose 16 per cent.

Operating profits rose from £59.2m to £62.2m, with margins up from 5.6 to 6 per cent. Greater operating efficiencies were being achieved, Mr Houlston said. Staff had been reduced by 1,300 during the year, and by 50 per cent over the last three years. Capital spending was running at about £30m a year.

Interest charges were reduced from £14.4m to £8.3m, with about £1m of the fall coming from lower interest rates and the rest from the reduction in net debt from £101.1m to £69.5m.

The company also announced a number of board appointments including Mr Graham Fish, as managing director of the dairies business. Five non-executive directors, with dairy or commercial experience, will be appointed on August 1 in preparation for the float.

They are Mr Richard Fletcher, an MMB member, Mr Ronnie Frost, chairman of Hays, Mr Thomas Hugh Jones, an MMB member, Mr Paul Lewis, deputy chairman and finance director of Tate & Lyle, and Mr William Maders, a special MMB member.

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of

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June, 1993

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DES PETITES ET MOYENNES ENTREPRISES

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11% Guaranteed Bonds 1995  
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For the period 15th June, 1993 to 15th December, 1993 the Floating Rate Notes will carry an interest rate of 5 1/4% per annum and coupon amount of U.S. \$41.37 per U.S. \$1,000 Note, payable on 15th December, 1993.

Bankers Trust  
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Application has been made to the London Stock Exchange for all of the Ordinary 10p Shares in Somerset Trust PLC and the new Ordinary Shares to be issued pursuant to the acquisition, placing and rights issue together, the "Proposals" to be admitted to the Official List. Dealings are expected to commence on Tuesday, 22nd June 1993.

### Somerset Trust PLC

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to be renamed

### CRABTREE GROUP PLC

Acquisition of Crabtree Holdings Limited

Placing of 6,666,667 Ordinary Shares of 10p each at 150p per share

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Share Capital following the Proposals				
Authorized			Issued and fully paid	
£	Number		£	Number
1,964,000	19,640,000	Ordinary Shares of 10p each	1,480,000	14,800,000
1,350,000	13,500,000	Deferred Shares of 90p each	1,200,000	1,200,000

The principal activities of the enlarged group are the design and manufacture of metal decorating printing presses, cutters and sheet metal feeders together with the sale of associated spare parts and ancillary equipment.

Copies of the particulars relating to the Company may be obtained during normal business hours on any weekday (Saturdays and public holidays excepted) up to and including 18th June 1993 from the Company Announcements Office of the London Stock Exchange, Stock Exchange Tower, Capital Court, Bank, off Bartholomew Lane, London EC2N 1HP (for collection only) and up to and including 13th July 1993 from:

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16th June, 1993

## WALES

The FT proposes to publish this survey on July 30 1993.

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FT SURVEYS

مکان العمل



## FINANCIAL TIMES SURVEY

## NEW ZEALAND

Wednesday June 16 1993

A surging tourist industry is the country's single biggest export earner: see page two

Quotas limit the sale of beef, lamb and dairy products in key international markets: page three

Radical economic reforms introduced by the National party government have won glowing international approbation. The sacrifices which have been demanded of the ordinary citizen have led, however, to a sense of disillusionment with the political process, Kevin Brown reports

## Sombre mood prevails

A DECADE after their political leaders embarked on a process of radical economic reform, New Zealanders are divided about whether the benefits have outweighed the costs.

A substantial improvement in most economic indicators over the past year has given the country what the OECD calls its best opportunity for years to achieve a sustained return to real economic growth. That is something New Zealanders have not enjoyed since their egalitarian South Pacific paradise began to run into economic problems after the oil crisis of 1973.

The OECD and most other outside analysts have reported glowingly on the impact of tariff and subsidy reductions, widespread privatisations, monetary prudence and cuts in social programmes.

But the reforms are far less popular inside the country. Indeed, outside the ranks of the conservative National government, the national mood is sombre. Many observers say New Zealanders have never been so divided.

The reason is the widespread perception among ordinary New Zealanders that they have borne most of the costs of the reform process without receiving any tangible benefits.

Many also believe they were misled by both the 1984-90

Labour government and its National (conservative) successor about the difficulties involved in restructuring the economy. The result has been disillusionment with the political process among those who have suffered from the reforms - especially unionised workers, students, pensioners, and consumers of state benefits.

Sociologists blame the dislocation caused by the reform programme for rising crime, growing poverty and increasing intolerance of Polynesian and Asian immigrants (though race relations are generally good). But the most dramatic result has been a surge in support for the replacement of the British-style first past the post (FPP) electoral system by a proportional system based on the German additional member system, known in New Zealand as mixed-member proportional (MMP).

Mr Ken Douglas, president of the Council of Trade Unions (CTU) says New Zealanders are simply "fed up" with the political process, which many believe has allowed right wing groups in the main parties to hijack the country.

"There is no fundamental belief that MMP is inherently a better system, but the present system has been disgraced because more than 50 per cent of people believe it is intellectually corrupt," he says.

"There has never been majority support for the things that have happened here, and people just don't accept the values which can justify the huge costs we have had to carry."

"We are a much more racist, violent and sexist society than we have ever been before, and much of that has happened because people have felt alienated from a political system which does not represent them."

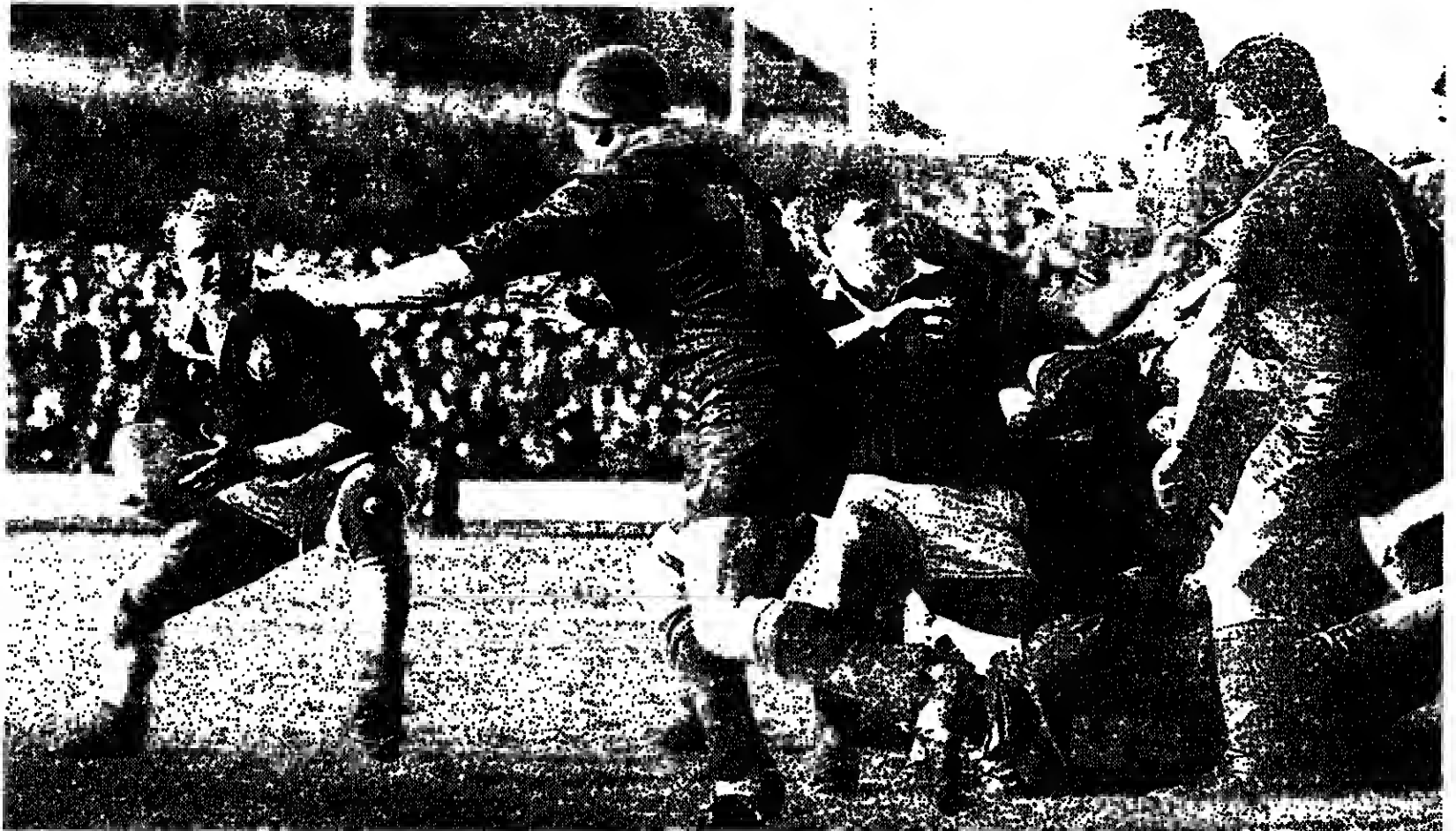
So far, the main beneficiaries of the support for PR have been Mr Winston Peters, a dissident former National MP, and Mr Jim Anderton, a former Labour MP who now leads the Alliance, a populist coalition of protest parties.

Mr Anderton's main theme, that only a more consensual style of politics can reverse the continuing destruction of New Zealand's egalitarian heritage, has struck a rich vein of public support. He has also skilfully tapped public anger with both main parties by asserting that they have repeatedly misled the electorate about the scale and difficulties of the reform programme.

"Roger Douglas (Labour's 1984 finance minister) said that if we took the hard decisions in the first 18 months of government then we would pick up the benefits in the last 18 months of the (parliamentary) term," he says. "But the sharp shock has been going on for so long now that people are traumatised by it. It's like being in the dentist's chair for years - the pain goes on and on and there is no gain."

THE appeal of Mr Peters is more difficult to identify. He has built a large constituency by criticising his former government colleagues, and is said to be determined to become New Zealand's first Maori Prime Minister. Yet no one seems to know what he stands for, unless it is "old-fashioned, private enterprise, development oriented" pump priming, as the Wellington Evening Post put it in a recent editorial.

The minor parties' best chance of breaking the hold of New Zealand politics will come in a referendum on MMP



A defeat for the 1993 British Lions at Otago: despite its small population, New Zealand has been the most consistently successful rugby nation for the past 100 years

to be held at the same time as the next election, due by November. If the referendum succeeds, as seems probable, MMP will be introduced for the subsequent election, due by 1996. If that happens, neither Labour nor National is likely to be able to form a future government without reaching a coalition agreement with at least one of the minor party groupings. In the meantime, opinion polls suggest that the Alliance could win a substantial number of seats in the next parliament, especially if it comes to an electoral agreement with Mr Peters.

Labour's response to the emerging political volatility has been to ignore it in the belief that traditional supporters will return to the fold when they enter the polling booths.

Mr Mike Moore, the Labour leader, who was Prime Minister for eight weeks in 1990, has spent the 32 months since the last election distancing himself and the party from the 1980s.

Mr Moore's strategy has been to exploit the climate of bitterness about the decade of change by presenting Labour as the party which offers New Zealanders both credible economic management and a fresh start - "the great reforms of the 1980s were, in the main, necessary, but this is not the 1980s, and I am not going to be constrained by the legacy of the 1980s," he says.

Rhetoric aside, however, Labour has no intention of reversing the thrust of the restructuring. The party would retain the existing tight monetary policy favoured by the

operationally-independent Reserve Bank, and it would aim for even greater fiscal conservatism than that achieved by National. In the main, a Labour government would restrict itself to relaxing National's deregulation of the labour market, and reversing or amending the government's unpopular changes to the health system and social programmes, which are intended to cut costs by improving targeting.

This policy moderation has been reassuring to the business and financial community, which has few qualms about the impact of a Labour government on New Zealand's ability to sustain the economic recovery. But there is little doubt that business would prefer to see the re-election of the

National government, which has firmly committed itself to continuing to open up the economy and reduce the size of government.

ONLY a month ago, National looked unlikely to remain in office. However, recent improvements in the economy have triggered a rise in the government's poll rating which shows that the battle is not yet over. Ironically, the government is also seeking to exploit the dislike for change by presenting itself as the only party which will not plunge New Zealand into a further bout of reform - "we have two very substantial electoral cards to play. One is the recovery, and the other is that we are the only party which represents

continuity," says Mrs Ruth Richardson, finance minister. "The opposition parties are now the ones which are offering destructive change."

The key influence on the election may well be the Budget, due next month. While a give-away Budget is unlikely, both Mrs Richardson and Mr Jim Bolger, the Prime Minister, have indicated that they want to extend the fruits of the recovery to ordinary New Zealanders.

Time is short, but if the government can do that, it may begin to heal some of the wounds which have so bitterly divided the country. In the long term, that will be of more importance to New Zealanders than the colour of the next government.

THE ECONOMY: after a difficult decade, lower wage and interest rates are at last creating the conditions for sustained economic improvement

## Exports put the bounce back

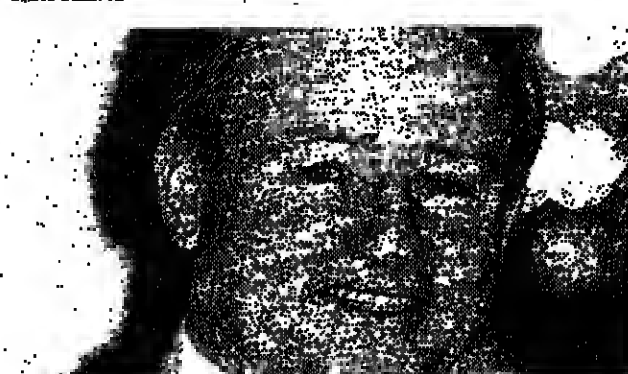
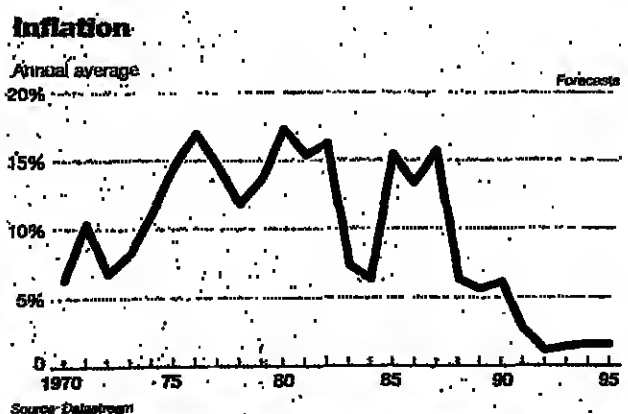
HOPES are rising that the New Zealand economy is emerging from the stagnation of the last decade in good shape to enjoy sustained, if moderate, growth through the 1990s.

Gross domestic product (GDP) grew by 3 per cent over the 12 months to December, and is widely forecast to remain at about the same level for at least the next three years. Although relatively low by the standards of the Asia-Pacific region, this is nearly triple the average rate of growth in the seven years since the country embarked on a radical economic liberalisation programme.

Not everyone believes the worst is over. The Trades Union Council, for example, points out that gross domestic product remains little higher than the level reached in September 1986. "The National government spent the first year in office (1990/91) converting a stagnant economy into a contracting one, and the second undoing that damage," the CTU said in a recent submission to parliament. "The growth... is simply a bounce back from the pits of the middle of 1991, when the economy plunged to a seven-year low."

But, for the less pessimistic, there are plenty of positive indicators. Inflation has been below 2 per cent for two years, unemployment has fallen to 5.6 per cent from a peak of 11.1 per cent, retail sales are rising, and business confidence is near its all-time high. The Organisation for Economic Co-operation and Development, in a recent report, said New Zealand now has "the best opportunity for many years to transform economic recovery into sustained growth." The OECD also pointed out that the recovery is taking place against a background of subdued world economic growth and reductions in government spending, which have tended to depress the domestic economy.

The growth is being led by exports, reflected in a surplus on the merchandise trade balance of more than NZ\$3bn in each of the last two calendar years, compared with an average for the previous six years of about NZ\$1.3bn. Underlying the recovery is the liberalisation programme, which the OECD once called



Jim Bolger, prime minister: next month's Budget will be crucial

"the most comprehensive micro-economic reform programme undertaken by any OECD country in recent years."

But the proximate cause of the improvement is threefold: ■ Falling interest rates: five-year government bonds are down to about 7 per cent from 13 per cent in late 1990, and mortgage rates have fallen from more than 15 per cent to less than 9 per cent.

■ Exchange rate movements: the New Zealand dollar has depreciated by about 8 per cent on a trade-weighted basis, delivering a substantial boost in competitiveness to exporters whose domestic costs are static or falling.

■ Lower wages: unit labour costs have declined substantially following labour market deregulation in 1991. A survey by Bancorp, an Auckland merchant bank, suggests that labour costs are now 36 per cent lower than in Australia.

Mrs Ruth Richardson, finance minister, says with some satisfaction that New Zealand will have one of the fastest growing economies in the OECD in 1993/94 - a sharp contrast with most of the pre-

vious 20 years, when it has generally been one of the slowest. Mrs Richardson argues that the economy is finally overcoming the traumatic effects of economic restructuring, and is reaping the benefits of efficiency gains and fiscal prudence.

Nevertheless some dangers remain, principally the possibility of a collapse in the Uruguay Round talks, on the General Agreement on Tariffs and Trade, and the sluggish performance of most of the other OECD economies - "they [other countries] also have substantial adjustments to undergo, and New Zealand is a very good demonstration of just how long it takes to get over the adjustment into the growth phase," says Mrs Richardson.

Domestically, the chief danger appears to be the uncertainty which could flow from a hung parliament or an unexpected change of government following the election due by November. There is little concern in the business community about a victory by the opposition Labour party, which began the reform process when it was in office from

1984 to 1990. However, a strong showing by the populist Alliance party would not be welcomed by business or in the financial markets, which fear a relaxation of the prudent fiscal and monetary policies of the last three years.

Fiscal policy has, in fact, been one of the government's failures - Mrs Richardson has long since abandoned her election promise to balance the budget by the end of this year. Nevertheless, substantial progress has been made, and the financial deficit (which excludes privatisation receipts) is likely to total more like NZ\$2.5bn in 1992/93 than earlier projections of around NZ\$3bn. This is equivalent to just over 3 per cent of GDP, which would maintain the downward trend from the peak of 3.6 per cent in 1990/91. The Reserve Bank is forecasting a fall to 2.5 per cent by 1995.

Mrs Richardson blames the missed target on "factors outside our control," mainly the rate at which the impact of corporate tax losses on government revenue is passing out of the taxation system. She says she is "leery" of setting a fresh target for the same reason, although the government expects to have been running budget surpluses "for some years" by 2000.

The other potential constraint on economic growth is the current account deficit, which deteriorated to NZ\$2bn in the year to March after narrowing to just NZ\$265m in the previous year. However, the deterioration appears to have been caused largely by one-off interruptions to exports, which restrained growth in the merchandise trade surplus, and adverse movements in corporate investment returns, which are expected to be reversed. Ms Brigitte Leckie, an economist at BZW in Auckland, says that concerns about the deterioration have been over-stated, and forecasts a small surplus by 1994/95.

"This recovery is different. It has been much harder to achieve than past recoveries, but it has not been underpinned by pump-priming, and we are not likely to see the bottlenecks caused by inflation, interest rates and the current account which have limited growth in the past," she says.

Kevin Brown

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**T**WO and a half years after coming to power in a landslide election victory, Mr Jim Bolger is New Zealand's most unpopular prime minister since opinion polling began.

Mr Bolger's National party government has trailed the opposition Labour party since shortly after the election, and has at times even fallen behind the Alliance coalition, a populist third party grouping. A month ago, the government was 18 points behind the Opposition in the most widely watched opinion poll, and even loyalists were forecasting that Mr Bolger's leadership could come under pressure unless things improved quickly.

Yet, the economy grew by 3 per cent in calendar 1993 - double the average rate in the previous 20 years, inflation is steady at about one per cent, and unemployment has fallen to 8.8 per cent from a peak of 11.1 per cent.

Recent polls have suggested that the government is finally beginning to make up ground on Labour, helped by a successful overseas trip by Mr Bolger and hints of a give-away Budget next month. But political analysts say there are four main reasons why National faces the possibility of a humiliating defeat in the next election, which must be held by November.

■ National won in 1990 because it gave the impression that the free-market reforms of

the 1984-90 Labour government would be reversed. Its extension of the reforms to the labour market and social security left the government open to charges that it had misled the electorate.

■ Few of the benefits of economic recovery have yet flowed through to ordinary people. The result has been growing income inequality in what was once one of the world's most egalitarian countries.

■ Ten years of dramatic economic change has involved much of the population in painful restructuring. The governing party is the easiest target for angry voters, as Labour discovered three years ago.

■ New Zealand's political landscape has been fragmented by the strains which have accompanied economic restructuring, raising the possibility of volatile shifts in political support away from both main parties.

The initial split took place

during the last Labour government, when Mr Jim Anderton, an amiable old-fashioned socialist with a colourful turn of phrase, took much of the party's far left into his New Labour Party. Against all predictions, Mr Anderton held his Christchurch seat at the election, and subsequently dis-

played considerable political skills in welding together a coalition of five minor parties, called the Alliance.

Support for the Alliance has fallen to about 22 per cent in recent polls from a peak of nearly 40 per cent in late 1991, but its prospects could be transformed by a further split between National and Mr Winston Peters, the highly popular Maori MP for Tauranga. A Heylen opinion poll suggested last month that a party led by

Mr Peters, now sitting as an independent MP, would win 26 per cent of the popular vote. Together, the Alliance and Mr Peters won 35 per cent support, which could be enough to win a three-party election under New Zealand's first past the post electoral system. The poll prompted rapid contacts

between Mr Anderton and Mr Peters but so far the two men have had only "talks about talks." And there are a number of hurdles in the way of a successful electoral arrangement.

■ Much of the support for Mr Peters overlaps with support for the Alliance, especially in Auckland, the country's biggest city. Alliance candidates in many constituencies might be unwilling to step aside to give candidates supporting Mr Peters a clear run.

■ The alternative would be for Mr Peters, 43, to join the Alliance. But he would probably want to assume the leadership. Mr Anderton says he is willing to step aside, but only after a party conference, which would be hard to arrange before the election.

■ The Alliance is already strained by differences between New Labour and its partners: the anti-development Greens, the Maori rights Mana Motuhake party, and two renegade conservative parties, the Liberals and Democrats.

Mr Peters shares with all the parties an abhorrence for the deregulatory free market government policies of the last decade. But he is still a conservative - he voted, for example, for labour market deregulation, which is anathema to New Labour.

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■ Mr Peters has maintained his popularity largely by avoiding setting out his own policies, leaving considerable doubt about where he stands.

Much of his popularity might disappear if he was forced to make hard choices.

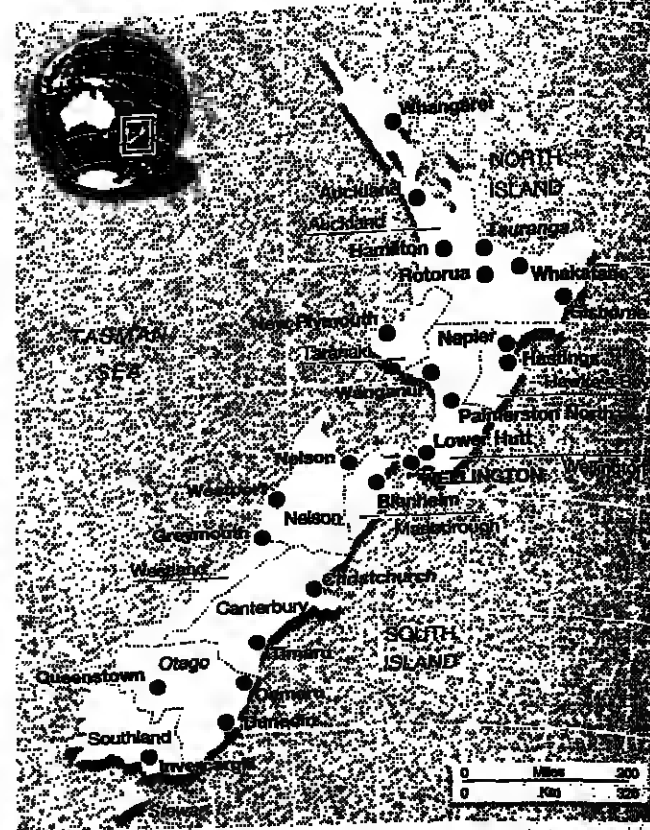
So far, Mr Peters is keeping his options open - "the ball is in Winston's court. He has indicated that he will take part in talks, but we are waiting for him to respond," says Mr Anderton.

Predictably, both the main parties cling to the hope that an agreement between the Alliance and Mr Peters will prove impossible to arrange, or that it will fall apart under the strain of an election campaign.

Mr Don McKinnon, Deputy Prime Minister, says National is confident that it can recover sufficient support to win the election "if we can demonstrate our strengths as managers of the economy." National is also counting on the historical tendency for government support to improve in the run-up to an election.

But Mr McKinnon admits that the government has been distracted by the internal battle with Mr Peters, who was given "an inordinate amount of time" to come into line before he was ejected from the party early this year.

The in-fighting has also hampered the government's attempts to highlight divisions between Labour's free market and socialist wings, which have been successfully papered over by Mr Mike Moore, the Labour leader - "probably we have not done a good job in exposing the Labour Party in



its true colours," he says. Mr Moore has spent the last 32 months distancing Labour from the record of the 1984-90 government, mainly by concentrating on the government's social security, health and labour market reforms. He has successfully resisted pressure to commit the party to reverse

the free market thrust of the last decade, although it would re-introduce a measure of labour market deregulation. Nevertheless, the election result remains unpredictable, at least until the shape of any agreement between Mr Peters and the Alliance becomes clear.

The election later this year threatens to prove embarrassing for the ruling National party, writes Kevin Brown

## A third force enters the political equation

Some political analysts claim that the National Party could suffer a humiliating defeat in the next election, which must be held by November



Celebration: Maori children dressed in traditional costumes

Improvements in race relations

## Agreement welcomed by Maori people

**T**HE government achieved a significant breakthrough towards settling long-standing Maori grievances this year when it gave financial backing to a deal which helped Maori tribes buying a half share in the country's biggest fishing company, Sealord.

The grievances date back to the early days of British colonisation, for generations, the Maoris have claimed that the British, and successive New Zealand governments did not honour the 1840 pact between both sides, the Treaty of Waitangi.

Both National and Labour governments have worked hard over the last decade at settling these problems. The Waitangi Tribunal was established to try to settle disputes particularly relating to land and fishing matters with the aim of finalising all grievances by the year 2000. However, the tribunal is not supposed to concern itself with land now owned by Europeans, and pessimists suggest there will be ongoing problems in the years ahead.

While some of the tribunal's decisions have been unpopular with some sections of the Euro-

pean community, there is widespread support with the view that the matters be dealt with promptly. There is also an acceptance that, in the past, the Maori people were unfairly treated, especially in land matters.

In the 1860s, for example, large tracts of valuable Wakatipu land was confiscated by the government at the end of the so-called Maori land wars. The problem was that the areas taken were top-quality farmland confiscated from Maori tribes who had supported the government. The disaffected tribes were left with their poorer quality land.

**T**HE Sealord deal, which cost the government \$176m, followed a Waitangi Tribunal ruling last year that Maori tribes were entitled to the deep sea fish resource around the South Island.

Prompted by South Island tribes, the government entered negotiations which allowed them to acquire a 50 per cent stake in Sealord, which controls about 35 per cent of the national fishing quota and most of the valuable hoki fish resource.

Brierley Investments bought the remaining 50 per cent. Earnings from the company will be shared around Maori tribes by a special commission.

In spite of some initial squabbling between different tribal groups, the Maori people have now welcomed the agreement, which it is hoped will lead to greater employment opportunities for a group which has been particularly badly hit by the protracted recession.

Unemployment problems are particularly acute among younger Maori people and, as a consequence, they outnumber other races in jail. The government and other agencies, including Maori people, are working hard at solving these problems through promoting education and raising Maori pride.

The aim, according to the Minister of Justice Doug Graham is to ensure that the work of the tribunal will not only have the effect of improving race relations, but help lift the Maori people out of the dependency mode "where they have been for much too long."

Terry Hall

**T**WO YEARS after the implementation of one of the most radical reforms of industrial relations law achieved in any industrialised country, New Zealanders remain divided about the benefits and costs.

The Employment Contracts Act (ECA), which became law in May 1991, swept away a century of state regulation of the labour market in favour of a deregulated system which effectively by-passes trade unions.

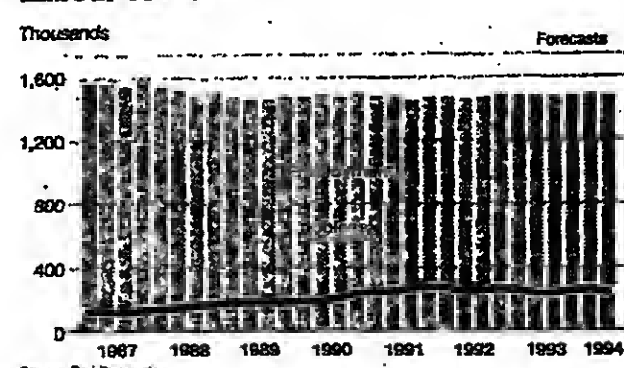
Under the old system, which dated back to 1894, most wages and conditions were set centrally in negotiations between unions and employers' representatives, and were then legally ratified as occupational awards. These awards covered all workers in each trade, most of whom were also legally required to be union members. The effect was that bargaining was difficult at company level, and almost impossible at plant level.

The ECA scrapped compulsory union membership and national awards in favour of civil contracts between employers and individuals or groups of workers, which are enforceable under civil law. Employees can negotiate their

Political parties divided over radical reforms in industrial relations law

## Fierce debate over contracts

Labour force



Source: Bert Forecasts

own contracts or appoint bargaining agents, which can be trade unions.

Strikes are legal only during negotiations, but there are minimum entitlements for wages, holidays and sickness benefits. However, no consensus about the system has emerged, partly because of conflicts between various surveys as to its impact on

job creation, working conditions and competitiveness. Mrs Anne Knowles, the Employers' Federation's labour market manager, says the ECA has been "crucial to the recovery now taking place in New Zealand. It was the last link in the deregulation of the economy."

"In the past, companies had

to be competitive on every aspect of their operations, except labour costs. Now they know that if they don't get a competitive edge through negotiation they can't blame anybody else," she says.

The employers complain, however, that the impact of the Employment Contracts Act has been weakened by a narrow interpretation of the law by the Employment Court, which hears allegations of illegal activity by employers.

The Council of Trade Unions (CTU), agrees that the act has reduced labour costs, but claims that the ECA has failed to promote job creation, and has promoted an authoritarian management style.

"The act was a one-off hit at labour costs. It has produced a productivity boost, but the improvement in competitiveness is not sustainable because it has not been followed by an increase in business investment," says Mr Ken Douglas, CTU

president. The opposition Labour Party claims the act breaches United Nations provisions on labour market practices established by the International Labour Organisation, ILO.

Mr Mike Moore, Labour leader, says that the ECA will be scrapped if the party wins the next election. There would be no return to the awards system, but trade unions would recover their lost bargaining rights.

Mr Moore says such a change would bring New Zealand into line with employment practices in other advanced countries. But the prospect worries the employers.

"Any change back towards a centralised prescriptive system with special rights for trade unions or employers' associations would be a retrograde step," says Mrs Knowles.

Kevin Brown

Big increase in holidaymakers from Asian countries

## A surge in tourism

**I**NTERNATIONAL tourists are discovering New Zealand in ever-larger numbers, helped in part by the increase in air services to the country and by strong promotions in Germany, Japan, Britain and the US.

Tourism New Zealand, the body charged with promoting the country abroad, has invested NZ\$40m over the past 18 months and the industry is in a highly confident mood.

In 1992, tourist numbers grew by 9.6 per cent to 1.05m, the first time they had passed the one million mark. The growth has continued this year with arrivals running 10.2 per cent, ahead of last year in the January - April period. The tourism board aims for 3m arrivals by the year 2000.

New Zealand now earns more than NZ\$3bn a year from tourism, making it the country's single biggest export earner, and the Tourism Board says it should be earning NZ\$5bn by the year 2000.

The board chief executive, Ian Keen, says the growth in numbers will be carefully handled, especially in terms of the environment.

"The fresh, uncrowded, unspoiled nature of New Zealand is one of our main attractions - and we'll keep it that way."

"We offer a contemporary society with sophisticated cities, superb food and wine, a unique Maori culture, and physical and natural attractions which visitors say are unequalled anywhere in the world."

The industry sees its greatest growth potential as being part of the Asian Pacific region. Growing disposable income is seeing a sharp rise in visitor numbers, although they are still well below those from more traditional areas such as Australia, the US and Britain.

Recession in the US led to a

5 per cent drop in tourist numbers in the year to March to 1,095,19, and Australian visitor numbers were also down 1 per cent to 341,096. However, main promotions in Germany saw a 40 per cent lift in holidaymakers to 43,556, and they stayed for an average 30 days, longer than most other nationalities.

The number of British visitors rose by 22 per cent last year to 120,227, and they stayed the longest of any nationality, an average 33 days. However, this percentage is boosted by the number of UK residents making extended visits to stay with family or friends.

Most European visitors prefer to rent a car and go where the mood takes them, stopping at hotels or motels in the many small towns that take their fancy. So do Chinese visitors from Taiwan, Hong Kong and Singapore. Large numbers of Chinese settlers have lived in New Zealand from the gold-mining days of the 1860s.

Younger Japanese tourists are following the self-drive trend, although due to language difficulties their older compatriots tend to travel in groups by coach or airline. Rapidly developing airlines, mainly pioneered by Air New Zealand, with Korea, Japan, Indonesia, Thailand, Taiwan and Singapore, have led to a sharp rise in visitor numbers from all these countries.

In the year to March the number of visitors from Taiwan rose by 46 per cent to a total of 91,387. There was also a 79 per cent increase in numbers from Singapore, and a 96 per cent rise from Korea.

As Asian tourist numbers climb, so does their ownership of hotels. Singaporean and Hong Kong companies have bought many of the country's top hotels over the past three years.

Terry Hall

Queenstown: hub of New Zealand's tourist industry

## Year-round holiday venue

**Q**UEENSTOWN, a township nestled at the foot of the sheer cliffs of a South Island alpine range known simply as The Remarkables, is New Zealand's most popular tourist destination. It is estimated that around 750,000 of the million overseas visitors who came to New Zealand last year spent at least a day at the resort - and most spent three days there.

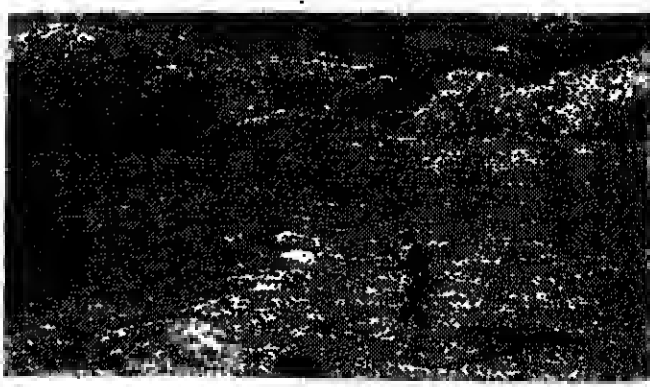
Despite the numbers, it is possible not to be aware of fellow tourists in this most unusual destination, as I found during a fortnight visit with my family at the height of the summer vacation this year.

The reasons are simple: Queenstown is the centrepiece of a leading holiday region, with an amazing variety of attractions. Most American, Australian or European visitors "disappear" there for the day in rental or hire cars. From Queenstown, there are short drives to deserted gold mining towns, around Lake Wakatipu, or further afield to lakes such as Wanaka or Te Anau which are preferred by the local people as they offer better boating and fishing.

For the more adventurous, the Fiordland National Park is a 12-hour day trip, although others go by luxury coach, or take a 20-minute flight to Milford Sound. Milford in turn offers jet boating to the open sea, hush-walks and a three-day tramp over rugged terrain to Lake Te Anau. Known as the Milford Track, this is one of New Zealand's leading outdoor attractions.

Queenstown is a genuine year-round holiday centre: in the winter months, three of the country's top ski fields are within a 20-minute drive.

All summer sports facilities are available. Two excellent local vineyards produce award winning wines. Each claims to be the most southerly vineyard in the southern hemisphere, and the wines are distinctive and pleasant. Other small vineyards flourish throughout the region, and visitors are encouraged to go on a day long wine trail. The Earnslaw, said to be the oldest coal-fired passenger steamer still afloat has the dis-



Fishing on the Kawarau River in the Queenstown region. For the more active there is bungee-jumping from the Kawarau Bridge

function of being launched on the same day as the Titanic. It sails regularly to high country "runs" (the local name for sheep farms), where it berths, and passengers are encouraged to dine at the homesteads.

For the more active, a former Queenstown resident - and now millionaire - A J Hackett, offers bungee-jumping from the historic Kawarau Bridge into swirling waters of the ravine below. There is also year-round white water rafting, para-gliding, jet boat rides on the turbulent waters of the Shotover and Kawarau Rivers, safari trips and helicopter rides.

Queenstown is bubbling with confidence about its future as the hub of New Zealand's tourist industry. This is leading to a mini-construction boom and the sleepy town of the 1960s and 1970s, is now host to 60 competitively priced and surprisingly good restaurants.

Terry Hall

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مكتبة الأصيل



## NEW ZEALAND 3

Profits from agriculture generally remain low

## Trade barriers still trouble farmers

**A**GRICULTURAL and primary products remain the mainstay of New Zealand's export efforts, and with access problems remaining in many key markets, the country is pinning its hopes on a satisfactory outcome of the GATT Uruguay round.

From the mid-1980s the country energetically removed all forms of farming tax incentives and farmer support systems, hoping to prove to the world that New Zealand could be a model of efficiency and show what an agriculturally-based economy could achieve in a liberalised trading environment.

Profitability is gradually returning to the sector, after a difficult transition period, when many farmers were forced to leave their properties because of financial difficulties compounded by high interest and exchange rates.

Today most farmers welcome the reforms, arguing through their representative body, the Federation of Farmers, that they are succeeding through a combination of hard work, efficient

practices, and low inflation. Average farm profits remain low, however, especially for wool and beef farmers.

New Zealand continues to run into trade barriers, such as the decision by the US authorities to cut the quota for beef imports from 214,000 to 194,000 tonnes this year.

Access problems continue for lamb exports to the EC. Despite a quota of 200,000 tonnes, exporters believe strong demand could easily see

## Quotas limit the sale of beef, lamb and dairy products in key markets

New Zealand supplying 350,000 tonnes this year.

In dairying, New Zealand is severely limited in the amount of cheese it can supply Britain, and faces a quota for butter. The New Zealand authorities attach great importance to further reform in the GATT round. This month, Trade Negotiations Minister Philip

Burdon warned against pressure to "water down" measures to liberalise world agricultural trade. He said any outcome that reduced any of the proposals was unacceptable to New Zealand and other members of the Cairns Group of agricultural exporting nations.

"We have already made concessions and must be very firm in resisting any further reduction in the draft agreement," he said.

Privately, New Zealand negotiators are confident of a satisfactory outcome. However, no one expects it to solve all New Zealand's problems. For example, the removal of the present US quota system for beef would open up that market to imports from South American countries who are making strenuous attempts to eliminate foot and mouth disease.

The New Zealand agricultural scene presents a complex picture: producers of some commodities are achieving high profits, while others continue to struggle. High lamb prices in Europe and elsewhere



Sheep grazing near Lake Hayes, Otago. Prices for fleece wool are at their lowest level since the 1930s

have proved a bonanza to some farmers.

New Zealand has had an extended summer of warm temperatures and light rain which has been perfect for lamb production. Farmers have been holding back stock from meat companies to get the best price. In turn, this is leading to difficulties for the companies

to fill orders from the UK and elsewhere, and they are being forced to pay exceptionally high prices for lambs at live-stock sales.

With a positive outlook for the next 18 months for sheep-meat prices, the price of a lamb has doubled since last year from around NZ\$25 to NZ\$50. However, the same farmer is receiving remarkably low prices for fleece wool, due to the international recession. It is estimated that real wool prices are at their lowest level since the 1930s.

In the US, the quota system has led to a big rise in prices for New Zealand beef at market, which are an important ingredient in the hamburger trade.

Last year the US took 76 per cent of New Zealand's beef production. This year it is taking 55 per cent. Supply problems in the US has led to the equivalent of a NZ 70 cent rise in the American market price to the past six months to around NZ\$45.35 a kilogram.

However, this apparent bonanza benefiting New Zealand farmers, as the export companies are being forced to sell the remaining 45 per cent at lower prices elsewhere in the world, where they are running into competition from US exports.

Exports of fruit also present a confusing pattern. The abun-

dant supplies of fruit of all types last year in the important European market, coupled with the loss of the US market led to big headaches for kiwifruit producers. Returns from kiwifruit tumbled from NZ\$1bn to NZ\$500m causing serious problems for the newly formed Kiwifruit Marketing Board which has ended up in financial difficulties.

The board is hoping that a smaller crop this year will eventually lead the industry to recover. Last year apple exporters earned exceptionally good money, most of their crop was sold in European and other markets before the glut of European fruit depressed prices.

So far this season New Zealand apples are selling well in Europe, especially the new varieties, but there is some concern at how more traditional varieties - such as Granny Smiths - will sell, due to increased competition from South Africa and other producers.

There is optimism that the agreement last month which saw the Japanese government agree to import New Zealand apples, will lead to good returns for orchardists over the next five years. This was a significant breakthrough. New Zealand is now the only country apart from Korea allowed to sell apples to Japan.

## KEY FACTS

Area	270,534 sq km
Population	3.48 million
Head of state	HM Queen Elizabeth II
Currency	New Zealand dollar (NZ\$)
Average exchange rate	1991 \$1=1.7285 NZ\$
	1992 \$1=1.8584 NZ\$

## ECONOMIC INDICATORS

	1991	1992
Total GDP (\$bn)	42.9	42.1
Real GDP growth (%)	-1.1	3.1
Components of GDP (%)		
Private consumption	64.1	n.a.
Total investment	16.9	n.a.
Government consumption	16.5	n.a.
Exports	29.3	n.a.
Imports	-27.5	n.a.

ANNUAL % GROWTH IN:	1991	1992
Consumer prices (%)	2.6	1.0
Producer prices (%)	0.8	2.1
Wage rates (%)	2.5	0.9
Ind. production (%)	-5.0	1.3
Employment (%)	-1.1	-3.7
Narrow money (%)	-1.8	3.1
Broad money (%)	-8.8	8.3
FT-A share price index (%)	17.8	-4.1
Reserves minus gold (\$m, Dec.)	2,950	3,079
Discount rate (% pa, year-end)	8.30	9.15
Govt bond yield (% pa, avg.)	9.94	8.37

TRADE:	1991	1992
Current account balance (\$m)	47.6	n.a.
Exports (\$m)	9,870	9,771
Imports (\$m)	8,418	9,152
Trade Balance (\$m)	1,254	619
Main trading partners (%)		
Australia	21.1	22.0
USA	12.8	16.7
Japan	15.9	15.8
UK	6.2	6.4
EC	14.5	12.0

(1) Percentage increase at year-end over previous year-end.

(2) Percentage share of trade in 1991.

Sources: IMF, World Bank, OECD, Datastream, FT Statistics

Manufacturing has responded to the new economic climate

## A supplier to niche markets

**M**ANUFACTURING industry is recovering from the sharp shocks it received over the past decade as a result of the efforts by successive governments to restructure the economy.

The real value of sales grew 6.7 per cent in 1992, a complete rebound from the 6.3 per cent contraction in 1991.

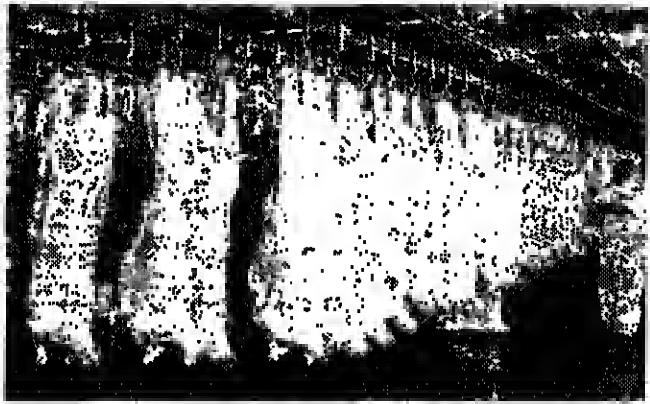
The latest figures from the Manufacturers' Federation show that the ratio of pre-tax profits to sales in the 1992 year was 7.4 per cent, up from 6.4 per cent in 1990. The general manufacturing sector showed real growth in exports of 15.1 per cent compared with 1.7 per cent in 1990, and some industries were facing capacity constraints. The sector has also seen the first growth in employment, and hours worked for six years.

However, the federation's survey says that the sector's biggest worry has been the growing amount of imports in the domestic market. Industry

had already taken a series of knocks from 1980 onwards as the National government moved slowly towards tariff reductions, especially in textiles. It received a setback from 1984, when the reformist Labour government, virtually overnight and without warning, decided to deregulate the economy and open it to import competition, with the aim of making the industry focus on exports.

From 1990 manufacturing had expanded strongly under the combined stimulus of import protection and a range of government incentives, aimed at securing development, full employment and economic diversification.

The changes in the 1980s severely damaged industry morale, and led a number of international companies to relocate their factories to Australia and elsewhere where tax and other incentives were available. Many industries became uncompetitive, and



Competitive advantage: New Zealand's meat exporting industry is cutting manufacturing costs by introducing advanced processing techniques

their owners closed them down.

Industry's efforts to respond to the new environment created by these changes was, furthermore, hampered by the combined effects of financial sector deregulation, and the subsequent share market boom, which saw the channeling of investment towards speculative endeavours.

The Labour government, too, deliberately ran a high exchange rate policy in an unsuccessful attempt to control domestic interest rates and inflation. The domestic market entered a severe recession from 1988, and the manufacturing sector was also struggling against the Labour government's reluctance, or slowness, to deregulate other markets, such as labour, transport and shipping. The high value of the dollar led to a flood of imports, which were by then virtually uncontrolled.

Peter Cookley, of the manufacturing advisory group said in a recent detailed report that the first signs of industry recovering began to be noted in 1989, as the benefits of the economic reforms became stronger and new export oriented strategies of manufacturers began to generate results.

"For a time this was masked by continuing retraction in various parts of the sector due to imports, but the extent of the new competitiveness in manufacturing is evident from its increased competitiveness, rising confidence, and the resurgence of exports across a substantial part of the sector in the past year."

The present National party government has provided two important benefits to the sector. One has been a relaxation in the Reserve Bank's inflation target, which was given an extra year to reach nil inflation. This allowed it to relax monetary policy and led to a fall in the value of the Kiwi dollar.

In recent weeks, however, the value of the Kiwi dollar has risen strongly, owing to improving economic signals. This has led to protests from manufacturers, especially those dealing with Australia, where the currency has weakened sharply. There has also been a fall in domestic interest rates from around 17 to 10 per cent over the past two years.

However, the main beneficial change has been the Employment Contracts Act, which effectively weakened the power of the trade unions (see facing page). Initially, this led to a fall in incomes, though latest figures show wages are growing due to increased productivity payments. Real sales generated per hour in the manufacturing sector are running at a record level.

"Manufacturing have been able to maintain high produc-

tivity in spite of increasing staff numbers and the totals of hours worked. This indicates that the reform of workplace practices and management systems is providing the basis for a sustained improvement in the international competitiveness of New Zealand businesses."

In 1992, manufacturing unit costs of labour fell by 5.5 per cent compared with a 4.2 per cent rise in Singapore and a nil change in Australia. Munro McLennan, an executive with UK meat group, Weddell Crown, said recently that the export meat industry was a "magnificent example" of the changes taking place in processing.

Previously unions banned more than eight hours work at a plant, which led to costly duplication. Now three-shift plants are common, industrial conflict seems non-existent.

## The geographical pattern of export trade has changed significantly

productivity payments are common, and workers are undertaking more complex processing tasks.

New Zealand manufacturers see their future as a supplier of niche markets. This has been fostered by the way industry developed. Many companies, such as white goods maker, Fisher and Paykel, became adept at handling small production runs during the years of import protection. This industry believes has brought competitive advantages in terms of product development, innovation, quality controls and the ability to supply short run or urgent orders.

Industry is now export oriented, and figures show that, despite the severe setbacks of the later 1980s, has more than doubled its share of total export receipts over the last 20 years, a trend that will continue. New Zealand manufacturing export growth at 7.3 per cent last year continues to be higher than the OECD average of 5.6 per cent.

The geographical pattern of New Zealand's export trade has also changed significantly over the past 15 years as markets have become more diversified. In 1976 Australia took 43.1 per cent of New Zealand's basic manufactured exports, Japan 32.3 per cent and a range of other markets 24.6 per cent.

Last year Australia's share was slightly lower at 42.7 per cent, Japan's considerably lower at 16.5 per cent, while a greater range of destinations, notably Thailand, Singapore, Hong Kong and Taiwan, took 40.8 per cent of total manufactured exports.

Terry Hall

## Focus on Napier, Hawke Bay province

## Protection for a unique legacy

**NAPIER**, the capital of Hawke Bay province on the east coast of New Zealand's North Island, is a hidden jewel with a tragic history and a glorious, but little known, architectural heritage.

The mid-summer sun was shining brightly on February 3, 1931 when an earthquake measuring 7.9 on the Richter scale hit the town without warning, demolishing most of the commercial district. The two and a half minute series of tremors killed 253 people throughout Hawke Bay, including 162 in Napier, then a town of just 16,000, and 93 in Hastings, a few kilometres to the south.

The disaster stunned New Zealand, then still a frontier society with less than 100 years of European settlement behind it. But within two years, both Napier and Hastings were rebuilt. The result is one of the best collections of 1930s buildings in the world, including dozens of excellent examples in the Art Deco, Stripped Classical and Spanish Mission styles typical of the decade.

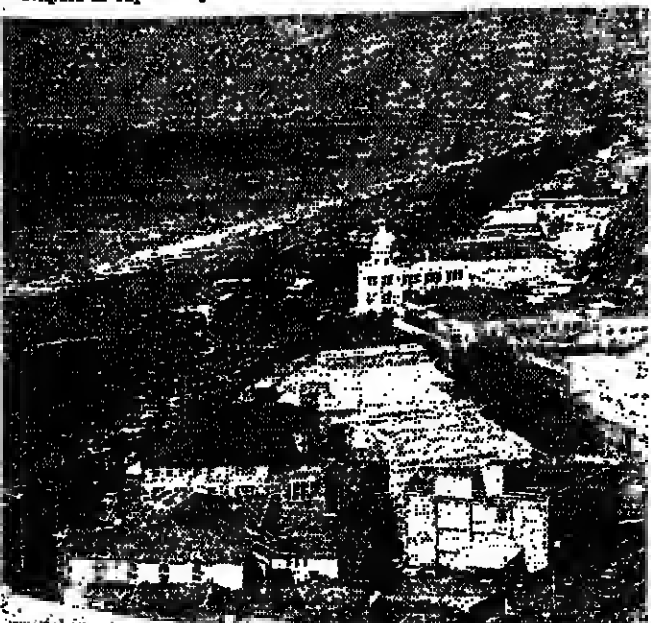
Napier is especially valuable

because its devastated town centre was rebuilt to a coherent plan by a group of forward-looking local architects for whom the modern styles represented a break with the tragic past.

Amazingly, the town's unique architectural legacy was virtually ignored until the mid-1980s, when the proposed demolition of a particularly fine building prompted the formation of an Art Deco Trust to defend the buildings. Mr Robert McGregor, chief executive, says 11 buildings were demolished in the 1980s. A conservation-minded council has introduced planning guidelines to encourage refurbishment, but the threat of further demolition remains.

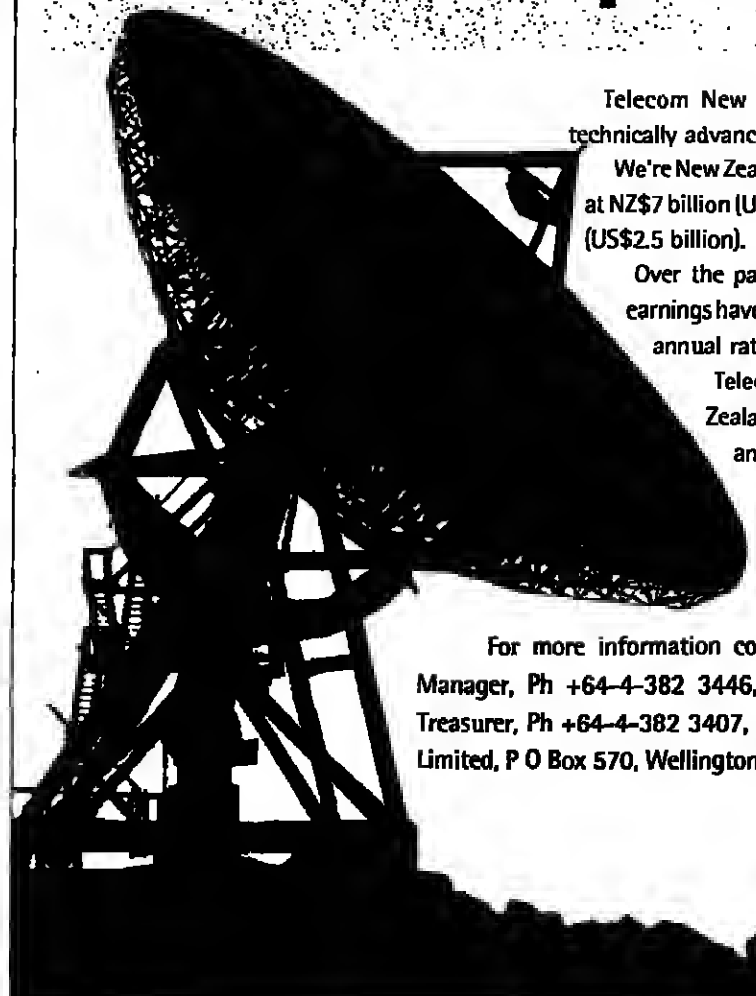
"Some of the buildings that were knocked down were not greatly important, but our argument is that any building which is lost creates a gap in the smile. It's like losing a front tooth - you still have all your other teeth, but it ruins your appearance," says Mr McGregor.

Kevin Brown



Napier today: within two years of the severe earthquake which hit the area in 1931, the centres of Napier and Hastings were rebuilt

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## CURRENCIES, MONEY AND CAPITAL MARKETS

## FOREIGN EXCHANGES

## Gaddum softens D-Mark

THE DOLLAR gained more than 2 pence against the D-Mark yesterday after a Bundesbank council member hinted that there could be another cut in official German interest rates this week, *writes James Bliz*.

In recent weeks, Bundesbank officials have been hawkish about the prospect of more monetary easing in Germany, because of fears of inflation, the weakness of the D-Mark and the growing German money supply. Indeed, the last easing in German monetary policy came more than a month ago, when the repo rate was cut to 7.00 per cent.

Yesterday, Mr Johann Wilhelm Gaddum, the directorate member responsible for credit market operations, changed the mood, saying that a slowdown in the pace of German money supply expansion could give the Bundesbank room to lower interest rates.

This was seen by dealers as a strong indication that the M3 money supply figures might fall within the 4.5 per cent to 6.5 per cent target band set by the Bundesbank.

In the first four months of the year, M3 expanded at a seasonally adjusted and annualised 7.0 per cent.

## £ IN NEW YORK

	June 15	June 14	June 13
1 month	1.2915-1.2925	1.2915-1.2925	1.2915-1.2925
3 months	1.2915-1.2925	1.2915-1.2925	1.2915-1.2925
6 months	1.2915-1.2925	1.2915-1.2925	1.2915-1.2925
12 months	1.2915-1.2925	1.2915-1.2925	1.2915-1.2925

Forward premiums and discounts apply to the US dollar.

## STERLING INDEX

	June 15	June 14	June 13
5.00 am	79.0	79.0	79.0
6.00 am	79.0	79.0	79.0
7.00 am	79.0	79.0	79.0
8.00 am	79.0	79.0	79.0
9.00 am	79.0	79.0	79.0
10.00 am	79.0	79.0	79.0
11.00 am	79.0	79.0	79.0
12.00 pm	79.0	79.0	79.0
1.00 pm	79.0	79.0	79.0
2.00 pm	79.0	79.0	79.0
3.00 pm	79.0	79.0	79.0
4.00 pm	79.0	79.0	79.0

## CURRENCY RATES

Jan 15	Bank of rate %	Special Drawing Rights	European Currency Unit
ending US Dollar	- 3.00	0.931501 1.45380	0.786447 1.20381



ASTMA

CAN.

Sales Stock High Low Close Day

Sales Stock High Low Close Day

TORONTO

4 pm close June 15.

Quotations in cents unless marked \$

Sales	Stock	High	Low	Close	Day	Sales	Stock	High	Low	Close	Day
18936	Agfa B&H	14 1/4	14 1/4	14 1/4	- 1/4	200900	Eco Bay M	\$1 1/4	1 1/4	1 1/4	+ 1/4
407575	Alcan Pip	\$1 1/4	1 1/4	1 1/4	+ 1/4	500	Eco Bay M	13	14	14	+ 1/4
138455	Alcan Pip	20 1/2	20 1/2	20 1/2	+ 1/4	500	Eco Bay M	13	14	14	+ 1/4
11225	Alcan Pip	15 1/4	15 1/4	15 1/4	+ 1/4	7735	Eco Bay M	\$2 1/4	2 1/4	2 1/4	+ 1/4
112220	Alcan Pip	27 1/2	27 1/2	27 1/2	+ 1/4						
12850	Alcan Pip	13 1/4	13 1/4	13 1/4	+ 1/4						
201132	Bk Mtnr S	\$2 1/2	2 1/2	2 1/2	+ 1/4	1300	FPI Ltd	400	400	400	- 1/4
489407	Bk Mtnr S	24 1/4	24 1/4	24 1/4	+ 1/4	8200	FPI Ltd	8 1/4	8 1/4	8 1/4	+ 1/4
218559	BCE Inc	9 1/4	9 1/4	9 1/4	+ 1/4	33333	FPI Ltd	17 1/4	17 1/4	17 1/4	+ 1/4
86282	Bell Canada	20	20	20	+ 1/4	21700	FPI Ltd	17 1/4	17 1/4	17 1/4	+ 1/4
343300	Bell Canada	17 1/4	17 1/4	17 1/4	+ 1/4	8232	FPI Ltd	17 1/4	17 1/4	17 1/4	+ 1/4
72506	Bell Canada	14 1/4	14 1/4	14 1/4	+ 1/4	1800	FPI Ltd	17 1/4	17 1/4	17 1/4	+ 1/4
550448	Bell Canada	17 1/4	17 1/4	17 1/4	+ 1/4	850	FPI Ltd	17 1/4	17 1/4	17 1/4	+ 1/4
18750	Bell Canada	11 1/4	11 1/4	11 1/4	+ 1/4	200	Foxconn	300	19 1/4	19 1/4	+ 1/4
373500	Bell Canada	22 1/2	22 1/2	22 1/2	+ 1/4	12100	Foxconn	300	19 1/4	19 1/4	+ 1/4
20772	Bell Canada	21 1/4	21 1/4	21 1/4	+ 1/4	55941	Foxconn	15 1/4	15 1/4	15 1/4	+ 1/4
5803	Bell Canada	21 1/4	21 1/4	21 1/4	+ 1/4	2100	Foxconn	15 1/4	15 1/4	15 1/4	+ 1/4
4000	Bell Canada	21 1/4	21 1/4	21 1/4	+ 1/4	2700	Foxconn	15 1/4	15 1/4	15 1/4	+ 1/4
72867	C&D Inc	\$1 1/2	1 1/2	1 1/2	+ 1/4	113677	Foxconn	15 1/4	15 1/4	15 1/4	+ 1/4
22400	C&D Inc	17 1/4	17 1/4	17 1/4	+ 1/4	900	G&S Inc	9 1/4	9 1/4	9 1/4	+ 1/4
1300	C&D Inc	17 1/4	17 1/4	17 1/4	+ 1/4	300	Harvard S	9 1/4	9 1/4	9 1/4	+ 1/4
23550	C&D Inc	20 1/4	20 1/4	20 1/4	+ 1/4	17778	Harvard S	11 1/4	10 1/4	10 1/4	+ 1/4
507900	C&D Inc	112	110	110	+ 1/4	2000	Harvard S	11 1/4	10 1/4	10 1/4	+ 1/4
340500	C&D Inc	112	110	110	+ 1/4	15100	Harvard S	11 1/4	10 1/4	10 1/4	+ 1/4
44144	C&D Inc	20 1/4	20 1/4	20 1/4	+ 1/4	12043	Harvard S	11 1/4	10 1/4	10 1/4	+ 1/4
223942	C&D Inc	20 1/4	20 1/4	20 1/4	+ 1/4	12043	Harvard S	11 1/4	10 1/4	10 1/4	+ 1/4
29422	C&D Inc	11 1/4	11 1/4	11 1/4	+ 1/4	12043	Harvard S	11 1/4	10 1/4	10 1/4	+ 1/4
29570	C&D Inc	22 1/4	22 1/4	22 1/4	+ 1/4	12043	Harvard S	11 1/4	10 1/4	10 1/4	+ 1/4
290	C&D Inc	22 1/4	22 1/4	22 1/4	+ 1/4	12043	Harvard S	11 1/4	10 1/4	10 1/4	+ 1/4
3698	C&D Inc	140	140	140	+ 1/4	12043	Harvard S	11 1/4	10 1/4	10 1/4	+ 1/4
12325	C&D Inc	140	140	140	+ 1/4	12043	Harvard S	11 1/4	10 1/4	10 1/4	+ 1/4
33042	C&D Inc	33 1/4	33 1/4	33 1/4	+ 1/4	12043	Harvard S	11 1/4	10 1/4	10 1/4	+ 1/4
4500	C&D Inc	20 1/4	20 1/4	20 1/4	+ 1/4	12043	Harvard S	11 1/4	10 1/4	10 1/4	+ 1/4
41200	C&D Inc	20 1/4	20 1/4	20 1/4	+ 1/4	12043	Harvard S	11 1/4	10 1/4	10 1/4	+ 1/4
50125	C&D Inc	30 1/4	30 1/4	30 1/4	+ 1/4	12043	Harvard S	11 1/4	10 1/4	10 1/4	+ 1/4
1109	C&D Inc	47 1/4	47 1/4	47 1/4	+ 1/4	12043	Harvard S	11 1/4	10 1/4	10 1/4	+ 1/4
351	C&D Inc	40 1/4	40 1/4	40 1/4	+ 1/4	12043	Harvard S	11 1/4	10 1/4	10 1/4	+ 1/4
57772	C&D Inc	300	375	375	+ 1/4	12043	Harvard S	11 1/4	10 1/4	10 1/4	+ 1/4
5100	C&D Inc	9 1/4	9 1/4	9 1/4	+ 1/4	12043	Harvard S	11 1/4	10 1/4	10 1/4	+ 1/4
111652	C&D Inc	100	100	100	+ 1/4	12043	Harvard S	11 1/4	10 1/4	10 1/4	+ 1/4
151822	C&D Inc	300	300	300	+ 1/4	12043	Harvard S	11 1/4	10 1/4	10 1/4	+ 1/4
95345	C&D Inc	4621	294	294	+ 1/4	12043	Harvard S	11 1/4	10 1/4	10 1/4	+ 1/4
5000	C&D Inc	240	240	240	+ 1/4	12043	Harvard S	11 1/4	10 1/4	10 1/4	+ 1/4
65050	C&D Inc	240	240	240	+ 1/4	12043	Harvard S	11 1/4	10 1/4	10 1/4	+ 1/4

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	June					1983	
	15	14	11	10		HIGH	LOW
<b>AUSTRALIA</b>							
ANZ (19/8)	1724.8			1714.3	1712.5	1768.4 (19/8)	1655.0 (1/8)
ANZ (1/8)	737.5			736.8	736.9	801.0 (5/8)	594.7 (1/8)
<b>AUSTRIA</b>							
CRS (10/28/8)	343.59	343.42	341.46			357.78 (5/8)	308.28 (1/4)
TEL (1/8)	844.37	856.19	857.73			861.17 (5/8)	712.06 (1/4)
<b>BELGIUM</b>							
BE (1/8)	1223.20	1224.44	1213.35	1212.94		1258.11 (7/4)	1125.48 (1/4)
<b>DENMARK</b>							
DE (1/8)	300.45	300.30	299.35	298.97		305.65 (1/4)	291.80 (1/4)
<b>FINLAND</b>							
HE (1/8)	1119.5	1116.2	1116.1	1122.7		1248.20 (1/5)	853.10 (5/8)
<b>FRANCE</b>							
CAC (19/27/8)	520.58	520.34	521.51	524.32	547.20	592.03	471.21 (3/4)
CAC (1/8)	188.89	191.04	191.04	191.1	200.51	200.3	172.17 (5/8)
<b>GERMANY</b>							
DAX (1/8)	855.85	858.89	855.83			875.70 (1/8)	588.82 (1/4)
DEUT (1/25/8)	1867.1	1873.3	1862.4			1908.10 (1/8)	1664.28 (1/4)
DO (1/25/8)	1024.10	1019.18	1000.05			1171.47 (1/8)	1516.10 (1/4)
<b>HONG KONG</b>							
HK (1/8)	7283.45		7288.74	7280.38		7447.24 (7/2)	5430.58 (1/4)
<b>IRELAND</b>							
SE (1/8)	1556.07	1571.87	1573.74	1580.00		1591.74 (1/4)	1391.15 (1/4)
<b>ITALY</b>							
ISE (1/8)	513.37	527.44	515.85	520.24	558.17	720.5	465.3 (1/8)
MI (1/8)	1133.0	1194.0	1191.0	1177.0	1236.00	1295.0	862.0 (1/4)
<b>JAPAN</b>							
NIKI (19/8)	2045.48	2067.35	2060.95	2093.32		2178.13 (1/4)	1857.45 (5/8)
TO (1/8)	2045.48	1950.48	1951	1952.28		1952.28	1794.00 (1/4)
2nd (1/8)	2293.97	2342.55	2268.38	2251.48		2284.97	1651.72 (5/8)
<b>MALAYSIA</b>							
KL (1/8)	730.42	743.18	740.28	737.53		746.29 (1/4)	614.28 (1/4)
<b>NET. U.S. COMPANIES (1/8)</b>							
NET. U.S. COMPANIES (1/8)	340.8	328.8	328.1	337.5	348.0	155.96	25.38 (1/4)
NET. U.S. COMPANIES (1/8)	222.1	222.9	221.7	221.4	221.9	221.94	180.80 (1/4)
<b>MORRIS</b>							
MO (1/8)	798.28	774.3	777.29	773.47		827.34 (5/8)	689.83 (1/4)

LYT Corp	8,008,200	2 1/2	—	New York SE	270,407	253,473	220,584
Triad	2,727,100	23 1/2	—	Americ	17,574	17,818	17,728
US Surgical	2,884,200	28 1/2	—	RACMD	208,432	225,205	242,277
Centrom Kiosk	2,036,100	53 1/2	+ 2 1/2	NYSE			
Chase Alan	2,292,300	30	+ 1/2	News Traded	2,544	2,553	2,512
Amer Bank	2,115,800	21 1/2	+ 1/4	News	851	1,680	788
Homebased	2,038,200	17	—	Falls	852	803	1,029
First Merit	1,854,900	31 1/2	+ 1 1/2	Dechanged	941	570	880
Morck	1,853,300	36 1/2	+ 1/4	New High	45	39	28
Wahlster	1,848,900	2 1/2	—	New Low	37	29	33

CANADA		TORONTO		1993		
	June 14	June 15	June 16	June 17	HIGH	LOW
Metals & Minerals	2943.07	2935.13	2967.23	2971.20	2972.25 (97)	2943.31 (7)
Composites	3872.16	3887.59	3873.64	3898.72	3894.80 (46)	3875.69 (17)
MORTHEAL Portfolio	1900.67	1889.65	1905.27	1886.80	1915.17 (295)	170.87 (17)

Base values of all indices are 100 except NYSE All Countries - 50; Standard and Poor's - 10; and Toronto Composite and Nickel - 1000. Toronto indices based 1973 and Montreal Portfolio 4/1/82. 1 Excludes Toronto's Industrial, plus Utilities, Financial and Transportation. 2 Closed on Thursday. 3 The DJ Ind. Index increased daily 4 High and Low are the averages of the highest and lowest prices reached during the day. 5 By which stock moved the actual day's high and low (expressed by Toronto's movement the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's %). 6 Subject to official recalculation.

TOKYO - Most Active				
Tuesday, June 15				
	Stocks	Bonds	Change	
Nippon Steel	Traded	Prices	on day	
	1.0	360	-11	St
Toysubike Corp	3.0	890	-24	M
Sanyoemco Int Ind	3.1	980	-32	M
NEC Corp	4.5	685	-13	M
Huach Coem	3.0	601	-18	F

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## NEW YORK STOCK EXCHANGE COMPOSITE PRICES

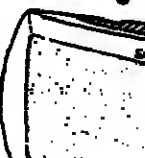
**4 pm class June 15**

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Continued on next page

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**NASDAQ NATIONAL MARKET**

*1 on close line 15*

No.	FY '88						Stock	FY '89						Stock	FY '90						
	E	YrB	High	Low	Last	Chg		Div.	E	YrB	High	Low	Last		Chg	Div.	E	YrB	High	Low	Last
25	641	143%		14	14	-3%	James Med	0.08	25	417	107%	103%	103%	-3%	Presell	7	53	71%	61%	61%	0%

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	82	302	3-9	3-2	3-9	Nat Pizza	21	41	74	74	74	74	Teleph
						NatComent x0.70	22	89	53 <sub>2</sub>	52 <sub>2</sub>	53 <sub>2</sub>	+15	Telephs
						Nat Compt	0.36	74	681	15 <sub>2</sub>	15	15 <sub>2</sub>	+2

$$\frac{5}{8} \times \frac{4}{9} = \frac{20}{72}$$
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## AMERICA

## More good inflation news fails to lift Dow

## Wall Street

ANOTHER batch of good news on inflation failed to lift stock market sentiment yesterday as equity prices eased slightly in moderate trading, writes Patrick Harverson in New York.

At 1 pm, the Dow Jones Industrial average was down 9.13 at 3,505.56. The more broadly based Standard & Poor's 500 was 0.74 lower at 446.99, while the Amex composite was down 0.11 at 435.07, and the Nasdaq composite up 0.96 at 597.38. Trading volume on the NYSE was 134m shares by 1 pm.

After last week's promising May producer prices report, which suggested that inflationary pressures in the economy were not as strong as originally feared, dealers and investors were hoping that yesterday's May consumer prices data would prove a similar source of comfort.

In the event, the numbers were encouraging: the Labor department said that the consumer price index rose by only 0.1 per cent last month, and that the "core" measure of prices (which excludes the volatile food and energy components) was up by 0.2 per cent. The figures were slightly better than forecast, and probably rule out the likelihood of an interest rate rise by the Federal Reserve.

The good news, however, did not persuade investors to buy stocks. Concern about the weak state of the economy, the absence of a big, upward move-

SAO PAULO was 4.6 per cent higher in midsession trading as investors reacted positively to the austerity measures announced by the Brazilian government on Monday night. The Bovespa index was 2,063 stronger at 47,346.

News that the government would speed up the sale of its power utility system lifted Eletrobras by 11.5 per cent.

IBM bond prices, and a sharp decline in IBM shares may have been behind the market's poor performance. At one stage the Dow was down by 20 points, before recovering.

IBM fell 1 1/4 to \$50 in volume of 1.7m shares after Salomon Brothers warned that there might be further write-offs at the company, which could lead to IBM halving its dividend.

Eastman Kodak, which rose sharply on Monday in anticipation of a big announcement from the company, dropped 3/4

to \$53 in volume of 1.8m shares after it revealed plans to spin off its Eastman Chemical subsidiary.

Heinz fell 1/4 to \$36 1/2 after announcing a \$192m pre-tax restructuring charge for the fiscal fourth quarter, which depressed after-tax earnings for the quarter to \$69.7m, down from \$145.7m a year ago.

Reebok plunged 5 1/2 to \$29 in busy trading as investors reacted negatively to the company's warning that its second quarter earnings will come in well below market estimates.

Tiffany jumped 3/4 to \$81 1/4 on the news that it will assume marketing and merchandising in 29 stores currently operated in Japan by Mitsukoshi.

Canada

TORONTO was strong in precious metals in otherwise steady midsession trading. The TSE 300 index was 2.13 higher at 3,874.29 in volume of 26.5m shares valued at C\$271.2m. Declines edged advances by 291 to 289.

The precious metals index was up 90.83, or 1.1 per cent at 8,097.81, defying a slide in Comex gold futures which had weakened after lower than expected US consumer price data.

## Catastrophes enrich the top reinsurers

Shares in Munich Re and Swiss Re have put on speed recently, writes Richard Lapper

Buoyed by tightening capacity and rising reinsurance premium rates, Munich Re and Swiss Re, the world's first and second biggest reinsurance companies, can look forward to a period of rising prosperity. Their shares have surged ahead strongly in recent months.

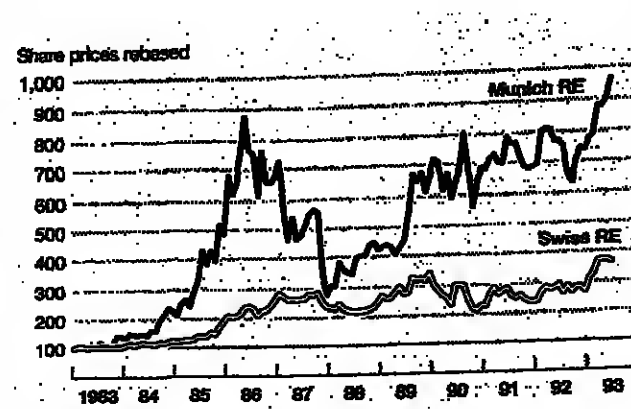
On past experience the "turn" in the insurance cycle augurs well for the reinsurers. Between 1984 and 1986, the last time reinsurance rates rose significantly, the share prices of Munich Re and Swiss Re doubled relative to their local stock markets and tripled in absolute terms.

With the reinsurance market in a similar state of buoyancy today, reinsurers could be embarked on a similar bull run. Underpinning the upturn is a fall in the capital committed to reinsurance markets, following a sharp drop in the frequency and cost of natural catastrophes. The cost of major storms in the 10 years between 1983 and 1992 escalated to \$32.1bn compared with \$18.9bn between 1980 and 1982.

The failure of many Lloyd's syndicates and smaller London market companies - which acted as "reinsurers of last resort" - has reduced drastically the supply of high level excess of loss reinsurance, leading to cumulative rate increases of up to 800 per cent for high level catastrophe reinsurance over the past four years, and more moderate rises across the board.

Messrs Michael Huttner and Angus Runciman, analysts with BZW Research, estimate that capital available to back reinsurance premiums has fallen by some \$4.8bn over the last three years. "The hard market," BZW predicts, "will be sustained for the next three years at least."

The collapse of the London market has led to a "flight to quality" by buyers seeking greater security from reinsurance companies. BZW expects bigger companies to dominate a "two-tier market", with the market share of the world's top 15 reinsurers winning market share at the expense of smaller competitors.



Source: Datastream

Reflecting these new market conditions, shares of reinsurers have begun to rise strongly. Last month the share price of Munich Re's registered stock reached DM3,220, an increase of more than 30 per cent from their 1992 average of DM2,510 and in excess of 50 per cent from their 1992 low of DM2,065. The price of Swiss Re's registered shares touched SF3,100 in mid-April, nearly 50 per cent above their 1992 average price of SF2,322.50.

Analysts are almost uniformly bullish. Mr Tom Bennett, of Paribas Capital Markets, says that following its strong performance in recent months, Munich Re has a further dimension as a heavily discounted investment trust, with its net worth of more than DM5,000 per share based on their 1992 low of DM2,065. The price of Swiss Re's registered shares touched SF3,100 in mid-April, nearly 50 per cent above their 1992 average price of SF2,322.50.

event of the worst possible event (for the reinsurance markets), a Tokyo earthquake" and also recommends investors to buy SCOR, the smaller French reinsurance company, as well as Swiss Re.

Mr Peter Constable, an analyst with Flemings Research, also favours Swiss Re, which has recently refocused on its core reinsurance business, following an ill-fated diversification into service companies in the 1980s.

He says the company will be a major beneficiary from recent rate increases. But with foreigners still unable to buy the company's registered shares, and bearer shares thin on the ground, Mr Constable recommends that large investors buy participating certificates issued by the company. Mr Constable, however, sounds a cautious note on Munich Re. He says the company's results in the past two years have been supported by a release of provisions in 1990 and 1991 and by "abnormally large" realised gains in 1991 and 1992.

## ASIA PACIFIC

## Tokyo falls back 1.7% as the yen continues to rise

## Tokyo

A STALEMATE over the government's political reform policy, compounded with a further rise in the yen, discouraged investors, and the Nikkei average fell 1.7 per cent on selling by margin traders and investment trusts, writes Emilio Terazono in Tokyo.

The 225-issue average ended 351.47 at the day's low of 20,045.88, having registered a high for the session of 20,393.23 in the morning.

Volume was 350m shares, against Monday's 261m. Sales were spread across the board, with declines overwhelming advances by 1,037 to 73, with 61 issues unchanged. The Topix index of all first section stocks dipped 39.58 to 1,619.88, and in London the ISE/Nikkei 50 index shed 2.45 to 1,216.32.

The dollar closed at a new low of Y105.03, down Y0.17, after briefly falling below Y105. Active buying by the Bank of Japan, however, supported the dollar. Traders said a fall of the Nikkei through 20,000 due to a further rise in the yen, would heighten calls for a cut in the official discount rate.

Investors turned sellers as uncertainty over the passage of the political reform bill intensified, prompting fears that Mr Kiichi Miyazawa, the prime minister, who vowed political reform, would be forced to resign. Concern that such developments might affect the economic planning ability of the government unnerved investors.

Exporters continued to face selling. Toshiba lost Y34 to Y690, NEC Y15 to Y935 and Toyota Motor Y70 to Y1,570.

Banks, which had been recent gainers on speculation of an imminent interest rate

cut, retreated on profit-taking. Industrial Bank of Japan declined Y100 to Y2,940, while Sumitomo Bank receded Y70 to Y2,280.

Other interest rate-sensitive issues were also down, with Nippon Steel, the day's most active issue, losing Y13 at Y2,982 and NKK shipping Y10 to Y233. Nippon Telegraph and Telephone fell Y13,000 to Y946,000 on margin selling.

Dai-ichi, the country's largest supermarket chain, which announced plans to absorb three retailing affiliates, dropped Y90 to Y1,060.

Securities companies lost ground, with the sector, the top loser of the day, down 3.9 per cent.

In Osaka, the OSE average fell 58.13 to 22,376.46 in volume of 18.5m shares.

## Roundup

AMONG THE region's markets profit-taking was much in evidence.

HONG KONG closed slightly higher as afternoon profit-taking trimmed early gains, with the market awaiting news from Sino-British talks in Beijing on the colony's political future.

The Hang Seng index finished 16.73 firmer at 7,283.46 after climbing 81 points early in the day. Turnover was moderate at HK\$4.3bn.

SEOUL slipped back for the fifth consecutive session, the composite index losing 1.63 to 767.84, off the day's high of 781.63. Turnover contracted to Won\$3.9bn.

TAIWAN reversed early losses to end moderately higher on cautious bargain hunting after recent falls.

The weighted index, which had dropped more than 25 points in early trading, closed

at a net 21.10 up at 4,198.30. Turnover shrank to T\$10.2m.

MANILA fell back as many investors awaited imminent new public listings. The composite index lost 12.85 to 1,568.42 in turnover of 302.6m pesos.

KUALA LUMPUR continued to decline, the composite index shedding 3.74 to 739.42. Volume was 494.8m shares, against Monday's 811.9m. In SINGAPORE the Straits Times Industrial index weakened 23.00 to 1,819.63.

AUSTRALIA traded in a tight range in spite of a weaker gold bullion price. The All Ordinaries index put on 9.7 at 1,724.0 in A\$45.5m turnover.

NEW ZEALAND was led higher by an 8-cent gain in Fletcher Challenge to NZ\$2.74. The NZSE-40 index advanced 7.13 to 1,637.00 in light turnover of NZ\$19.0m.

BANGKOK was mixed as investors sold major property shares to take profits. The SET index gained 2.93 at 871.17 in active turnover of B\$5.42bn.

Krungsri Bank, whose B10 per share will start trading today, rose B10 to B396 and was the most active stock.

BOMBAY fell sharply on reports that a stockbroker at the centre of the country's biggest financial scandal had offered to turn state's witness to testify about possible pay-offs to leading politicians. The BSE index declined 68.41 to 2,289.13.

## SOUTH AFRICA

INDUSTRIAL shares gained ground in late trading on futures-related hopes and the index improved 39 to 4,629. The golds index advanced 33 to 1,595 and the overall index 28 to 3,932. De Beers rose 50 cents to R77.50.

## EUROPE

## Milan shaken by more Ferruzzi shock waves

SENIOR markets were weaker yesterday as Wall Street opened easier, writes Our Markets Staff.

MILAN continued to be affected by shock waves from Ferruzzi group companies, while the end of the June account today also exerted a negative influence as the Comit index lost 14.07 to 513.37.

An additional burden was placed on the Ferruzzi group following Monday's post-bourse announcement of a L1,058bn, two-for-one rights issue from Fondiaria, the country's third largest private-sector insurer.

Fondiaria is controlled jointly through the Gaic holding company by Ferruzzi and the family of Mr Camillo De Benedetti, who died earlier this year. It closed L2,742, or 10 per cent lower at L2,410 while Gaic was suspended to the end of the session after it, too, fell by some 10 per cent.

Some analysts noted that since neither Gaic, nor the debt-laden Ferruzzi are in a position to subscribe, the underwriting banks - Mediobanca, BCI, Banca di Roma, Credito Italiano and San Paolo - would be left with effective control of the insurer.

Ferruzzi closed yesterday down L68.80 at L593.50 while Montedison, which is reported to be about to dispose of its Ilmorat and Autumot subsidiaries, settled at L779, down L15.

FRANKFURT eased back, wary of the Bundesbank meeting tomorrow and the "triple witching" closure of DTB options contracts on Friday. The DAX index fell 7.88 to 1,684.10 in turnover reported to be lower than Monday's DM5.9bn.

The DTB effect was suspected in the performance of Commerzbank, which rose by DM4 to DM303.50 against the market and against the sector - Deutsche Bank fell DM4 to DM695.50 - and traded in 400,000 shares, four times its usual volume on this, the German screen-based dealing system.

In retailing, Karstadt and Kaufhof underperformed the market. Mr Roland Wren, a dealer with James Capel in

## F1-SE Actuaries Share Indices

Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FT-SE Eurotrack 100	1175.56	1174.74	1174.13	1173.21	1173.57	1173.59	1173.69	1173.17
FT-SE Eurotrack 200	1232.30	1231.46	1230.89	1229.57	1229.93	1229.89	1230.27	1229.36

June 14 June 15 June 16 June 17 June 18 June 19

FT-SE Eurotrack 100 1181.59 1181.85 1181.45 1181.59 1181.70 1181.70

FT-SE Eurotrack 200 1234.83 1232.37 1232.25 1230.01 1230.01 1230.01

Time value 1000 (24/10/93) 1000: 1175.76, 200: 1232.51, London: 100: 1175.89, 200: 1232.54

Line with falling crude prices, with Elf down FF5.80 to FF377.80 and Total losing FF2.20 to FF263.00.

Michelin slipped FF3.50 to FF144.00 on profit-taking after a recent strong performance, while Peugeot was off FF17 to FF510 as investors began to anticipate bad news at next week's annual meeting.

MADRID advanced, mostly late in the day, to its fourth consecutive gain following its losses on the Socialist election

The oil sector was weak, in

victory. The general index closed 1.40 higher at 259.39 in turnover of Ptas16.5bn.

Mr Peter McGahan of Schroder Securities said that a major Spanish bank executed some fairly large UK orders for banks, and Repsol BBV rose Ptas50 to Ptas3,115 and Repsol Ptas50 to Ptas3,290.

ZURICH extended its period of profit-taking, the SMI index falling another 20.2 to 2,274.0. Nestlé lost SF9 to SF1,092, SBC SF7 to SF333 in a weak banking sector and, elsewhere in financials, Swiss Re dropped SF100 to SF3,050.

AMSTERDAM rose modestly, helped by DSM's F12.00 gain to F188.30 on recent positive comment for cyclical stocks.

However, Hoogovens, which has a done well over the last few days, lost F1.30 to F182.40 as some investors decided that it was time to take profits.

The CBS Tendency index

advanced 0.3 to 108.7.

Another strong performer was Fokker, up F11.10 to F115.90, after announcing orders for new aircraft.

STOCKHOLM rose on US buying with the financial sector gaining 4.6 per cent and the Affarsvärlden general index 5.50 to 1,075.70.

TEL AVIV reversed a sharp two-day decline after the Israeli prime minister, Mr Yitzhak Rabin, quashed rumours that the government would soon impose a capital gains tax.

The Mishkanim blue chip shares index jumped 5.77, or 23 per cent to 202.45 in turnover of Shk195m.

ISTANBUL failed to break through the 10,000 level as the index closed 43.69 higher at 9,804.36 with investors continuing to react positively to the appointment of Mrs Tansu Ciller as prime minister.

## SHARING THE BENEFITS

## PRELIMINARY RESULTS FOR THE YEAR ENDED 31 MARCH 1993

	1992/93	1991/92	Change
Turnover	£919.5m	£834.6m	+10.2%
Profit before tax	£111.2m	£104.3m	+6.7%
Profit after tax	£82.3m	£73.8m	+11.5%
Capital invested	£85.5m	£73.8m	+15.9%
Earnings per share	69.3p	62.4p	+11.1%
Final dividend	14.20p	13.80p	+2.9%
Total dividend	21.00p	19.60p	+7.1%
Gearing	5.6%	5.6%	0%

## HIGHLIGHTS

- Pre-tax profits increased to £111.2m
- 15.1% increase in total dividend
- 1% reduction in prices from July 1993
- 1% volume growth in electricity distributed
- £85.5m capital investment as planned
- Improvements across a wide range of customer services

Chairman, Bryan Weston, said

"We have had another excellent year in which the financial performance of the Company has been strengthened. The benefits of our achievements will be shared between our shareholders who will receive an increase in their dividend and our customers who will have electricity prices cut from July. We have invested over £85 million in the business with the results coming through in improvements across a wide range of customer services."

Manweb

The Company's Annual Report will be sent to all shareholders in early July. Copies are available from the Company Secretary, Manweb plc, Sealand Road, Chester CH1 4LR.

For share price information call our Shareholder Helpline on 0839 500543. Calls at peak rates will be charged at 40p per minute and 36p per minute at any other time.

## FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co. and NatWest Securities Limited in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS	MONDAY JUNE 14 1993	FRIDAY JUNE 11 1993	DOLLAR INDEX
Figures in parentheses show number of lines of stock	US Dollar Index	US Dollar Index	1993 High
Australia (68)	132.91	132.01	131.10
Austria (114)	149.24	147.89	145.88
Belgium (42)	144.54	144.55	143.98
Canada (106)	127.29	127.24	126.80
Denmark (33)	217.84	217.84	217.84
Finland (23)	90.08	90.08	90.08
France (67)	156.68	156.68	156.68
Germany (52)	114.17	114.17	114.17
Italy (73)	298.18	298.18	298.18
Ireland (19)	183.35	183.35	183.35
Japan (470)	155.86	155.86	155.86
Malaysia (69)	349.34	349.34	349.34
Mexico (18)	1438.18	1438.18	1438.18
New Zealand (24)	170.26	170.26	170.26
Norway (22)	48.77	48.77	48.77
Portugal (28)	183.09	183.09	183.09
Singapore (58)	255.13	255.13	255.13
South Africa (80)	182.18	182.18	182.18
Spain (49)	130.15	130.15	130.15
Sweden (56)	177.55	177.55	177.55
Switzerland (52)	128.47	128.47	128.47
United Kingdom (216)	178.12	178.12	178.12
USA (519)	182.86	182.86	182.86
Europe (782)	147.11	147.11	147.11
Nordic (114)	185.49	185.49	185.49
Pacific Basin (718)	183.07	183.07	183.07
Euro-Pacific (1478)	154.05	154.05	154.05
North America (827)	178.40	178.40	178.40
Europe Ex. UK (543)	127.26	127.26	127.26
Pacific Ex. Japan (243)	180.30	180.30	180.30
World Ex. US (1561)	184.27	184.27	184.27
World Ex. UK (1561)	161.24	161.24	161.24
World Ex. So. Af. (2120)	182.74	182.74	182.74
World Ex. Japan (1710)	188.50	188.50	188.50
The World Index (2180)	182.83	182.83	182.83

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## TELECOMMUNICATIONS IN BUSINESS

SECTION III

Wednesday June 16 1993



As competition intensifies, so does the complexity of tariff structures and the range of options and services. Picture: Tony Andrews



Change is so rapid that to plan even for the next two or three years companies must be familiar with all the main telecoms trends

## Opportunities galore

The UK telecoms sector, already Europe's most competitive, is about to engage in a further bout of price-cutting and aggressive marketing, writes **Andrew Adonis**

In assessing their telecoms needs and outgoings, never has it been harder for companies to keep track of costs, competition and the potentiality of new technology.

UK companies have a tougher job than most. Britain's telecoms sector, already at the head of Europe's competition league, is about to engage in a further bout of price-cutting and aggressive marketing as new entrants establish themselves and established telecoms companies – not just the giant BT, but Mercury and the two mobile operators Cellnet and Vodafone – fight to keep their volumes and profits.

In telecoms, sorting the wood from the trees is made extraordinarily difficult by the thick haze of acronyms and jargon obscuring the route at every turn. It is not just new technology, as competition intensifies, so does the complexity of tariff structures and the range of options and services on the market.

For the finance director of a small or medium-sized company, who has to do the phones, the balance sheet and the contract cleaning, bewilderment is increasingly common.

Fortunately, a few rules of thumb will go a long way. First, virtually all agree that prices have further to fall – in both the fixed-line and mobile markets. Because much of the pressure for price reductions in the US and UK is likely to come from new entrants, look carefully at anything they have to offer – once you have checked the respectability of their operating credentials. One simple test is: did their directors previously work for one of the big telecoms companies?

Second rule of thumb: don't think you need to stick with just one or two suppliers. For most business users, least-cost routing software or

"smart boxes" can take the pain out of call-by-call and day-to-day decisions on users. In the mobile market, very favourable deals on offer from new entrants with restricted networks – such as, in the London region, those of Hutchison Telecom and Mercury One-2-One – could make it worthwhile for companies to patronise more than one company, or even to give employees two portable handsets.

The majority of PAEX systems sold today either come with or are compatible with least-cost routing software. For those without it, but with compatible systems, installation typically costs about £300. "Smart" equipment is more expensive and less reliable, but reliability is improving and for most users the cost works out at about £100 a line.

In the fixed-line business, the best prices are often those from new entrants re-selling leased lines and connecting them to private networks. A telling case study is the rise of Worldcom, a London-based company plying the international resale trade for the 18 past months. It now has more than 100 customers and expects to have "a few thousand" by next year. Its rates are highly competitive with BT and Mercury, particularly for transatlantic traffic – and according to the Telecommunications Users' Association, there have been virtually no complaints about reliability.

Worldcom is about to lease lines to Manchester, Birmingham, Heathrow and Glasgow, making it economic for non-city of London companies to link up with the operator. It also has a public network operators' licence pending: if it secures one, it will be able to route calls over BT's network, giving it a strong appeal even to smaller companies.

At the other end of the fixed-line market, the cable TV companies – many of them with US parents anxious to learn the TV trade from which they are barred at home – are fast establishing local telephone networks which could soon challenge BT in conurbations.

The cable TV franchise operators currently have only 160,000 telephone subscribers, and some made a shaky start. They also suffer from the absence of number portability – an issue before OfTel, the industry regulator – which makes it hazardous for companies to sever all connection with BT. But the cable companies are still in the early stages of construction: once they have reached the 15m in their franchise areas, BT's virtual monopoly of the local network will be under serious threat. In the US, MCI, the second-largest operator, now has about 18 per cent of long-distance traffic. In the UK, BT has ceded nearly 10 per cent of the market – and half or more of all outgoing traffic from the City of London – to Mercury.

Another two UK national networks are under construction. Ionica, a private Cambridge-based company, is building a radio-based network for launch in early 1995. Energis, a subsidiary of National Grid, is wrapping fibre-optic around its pylons and is promising a price war with BT and Mercury as early as next spring, with a network connecting 17 of Britain's leading towns and cities. Energis will have to interconnect with BT to convey its calls the "last leg" but the cable companies offer the medium-term prospect of avoiding BT even in much of the local loop.

It is the same story in the UK mobile market, where the huge margins of Vodafone and Cellnet are coming under sustained assault. Hutchison's Rabbit "telepoint" service may lack the flexibility of Vodafone and Cellnet but at 20p a peak-rate minute inside the M25 its tariffs are less than two-thirds their standard rates. Mercury One-2-One is currently testing its PCN mobile service: it plans to launch it within the M25 this summer with a peak rate as low as 16p a minute and an access charge for high-volume users of about £20 – although One-2-One handsets will cost slightly more than the cheapest on offer from Cellnet and Vodafone.

With One-2-One's PCN network due to cover 24 per cent of the popu-

lation by April 1994, Vodafone and Cellnet can ill afford to sit by for long without cutting their tariffs. So the fire alarm mentality of existing mobile users ("break seal to use") could soon be a thing of the past.

For most companies, getting the best price for existing services is a more pressing priority than high-flown debates about the virtues of national optical-fibre networks. Yet so rapid is the speed of change that to plan even for the next two or three years companies must be familiar with the main telecoms trends. Among those covered in the survey, two stand out: the development of "outsourcing" and the growth in value-added services.

At its most basic, outsourcing is the contracting out of part or all of a company's telecoms network-facilities management to a telecoms carrier. It is of particular appeal to companies anxious to modernise existing private networks, and to multinationals looking for "one-stop-shop" arrangements to cater for their worldwide telecommunications needs.

Learning from US experience, in the UK both BT and Mercury are bidding for domestic outsourcing contracts via facilities management units. BT is also seeking to carve out a role for itself in the global outsourcing market through a new \$1bn joint venture with MCI launched earlier this month, which will eventu-

ally subsume its Atlanta-based Syn-cordia subsidiary. Mainland European operators have been slower off the mark.

France Telecom and Deutsche Telekom have joined to establish an outsourcing company of their own, Eumetcom, while the Swiss, Dutch and Swedish state telecoms recently set up a joint venture, Unisource, to provide data transmission services to European-based multinational companies, signing up Sprint, the US carrier, to provide global links outside Europe.

Meanwhile, American Telephone and Telegraph last month launched its Worldsource service aiming to provide a "seamless" global telecoms service through partnerships with national telecoms carriers region by region. It has already signed up five Asia-Pacific carriers and is roaming Europe in search of partners for its launch in Europe next year.

New services on offer range from plain paper fax machines able to send low-priority faxes overnight, to advanced electronic data exchange permitting users to exchange business documentation using standard electronic forms, broadband services such as video-conferencing, and virtual private networks which companies use to link switchboards on different sites, even in different countries, and far more besides.

Remarkably, many of the once hidebound state telecoms utilities are leading the way in turning technology into new services. In the US and UK, their monopolies have been abolished; they are likely to be so soon in the rest of Europe. So they can no longer sit back, keep their networks ticking over and expect the profits to roll in regardless. For companies it offers opportunities galore.

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BT engineers installing optical fibre in London

■ Smart cards: Worries about bank and charge-card security are generating fresh interest in smart cards. They will also be used in the GSM digital mobile phone network to curb illegal use of mobile phones ..... Page 5

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■ Editorial production: Phil Sanders

## DATA NETWORKING SOLUTIONS

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## TELECOMMUNICATIONS IN BUSINESS 2

## DIGITAL SERVICES

## New generation in wings

Over the past decade, mobile telephony has become the fastest growing segment of the dynamic global telecommunications market. Now a new generation of mobile telecommunications equipment, based on digital rather than analogue technology, is poised to deliver a wide range of sophisticated new voice and data services to business and residential customers.

The total number of cellular telephone subscribers grew by 43 per cent last year to 23m, according to figures collected by Mobile Communications, the FT newsletter. In the US, the biggest cellular market, subscriber numbers jumped by 46 per cent from 7.6m to 11.1m.

By the end of this decade half of all telephone calls worldwide are expected to originate or terminate on a mobile phone - and a growing proportion of those telephones will be operating on the new digital technology.

EMCI, the Washington-based market research organisation, has forecast that there will be about 13m digital cellular subscribers worldwide by 1996, accounting for about a quarter of the total cellular market.

This expected growth in digital cellular subscribers reflects some key advantages which digital technology can offer over older analogue systems. Among these, digital mobile telephones provide more reliable, clearer and more secure telecommunications.

In addition, by converting ordinary sound into computer code, digital services can pack at least 10 times as many calls into the same "space" in the radio spectrum. But perhaps most importantly they allow telecommunications network operators and others to provide a wide range of value-added customer services.

Significantly, although North America led the first mobile telecommunications revolution in the early 1980s, it is Europe that has taken the lead in the move towards the next generation of digital systems.

Europe has adopted a pan-European digital telecommunications standard called GSM (Groupe Speciale Mobile).

"The big impact of GSM is that it is a

single standard," says Mr Dean Evers, an industry analyst with Dataquest's European telecommunications group, "and this means enormous economies of scale for equipment manufacturers."

In contrast, in the US a dispute between network operators over two rival digital standards, one called time division multiple access (TDMA) and the other called code-division multiple access (CDMA) is threatening to delay the widespread introduction of digital systems.

Twenty-three operators in 16 European countries are committed to building GSM networks, and another 20 countries around the world have adopted GSM as the basis for their next generation of cellular services.

The first GSM networks were launched last July in Germany, France and Denmark, and similar services are now being rolled out across Europe. Since last July, GSM subscribers have accounted for almost one third of all new subscribers to cellular networks in western Europe. By the end of this year Dataquest is forecasting that there will be 1.1m GSM subscribers in Europe, growing to 8.31m by the end of 1996.

In the UK, Cellnet - one of the two analogue cellular network operators - plans to have 60 per cent of its GSM network in place by year-end and will begin to actively market its system to business customers early next year. Vodafone, the other UK cellular operator, launched a limited GSM network in December and plans to have 90 per cent of its system in place by the middle of this year.

Vodafone has already reached GSM roaming agreements with Denmark, Finland, Germany and Sweden and expects to sign shortly with France, Italy and Switzerland. These agreements will eventually allow GSM sub-

scribers carrying their personal smartcards to make calls using a GSM phone anywhere in Europe.

The GSM standard also includes a mobile data facility which will eventually enable mobile terminals, such as portable computers and fax machines, to communicate through a GSM handset at speeds comparable to the best of today's fixed telephone data links. It is also compatible with the emerging integrated services digital network, or ISDN.

"As GSM digital networks roll out across Europe and other parts of the world they bring with them a whole new range of features," says Mr Dominic von Trotha Taylor, marketing manager at Vodafone's sister com-

**The pace of transition from analogue to digital cellular systems will vary**

pany, Vodafone. One of the most significant of these is the GSM Short Message Service which enables GSM handsets equipped with small LCD screens to receive messages like pages.

In December, Vodafone, working with Sema Group's telecom division, became the first GSM network operators to successfully test the short message service feature. This allows an alphanumeric message of up to 160 characters - twice as long as the typical maximum length paging message - to be displayed on the handset.

The messages are sent via the short message service centre and when they arrive at the mobile they are stored in the user's SIM (smart) card ready for retrieval. SMS's unique features include the ability to send or receive messages at the same time as speaking or sending data, an alert feature

for informing a third party when a mobile re-registers on the network, the ability to store a message and forward it to the mobile when it is switched on, and acknowledgement of successful message delivery.

Mr Martin O'Byrne, managing director of Sema's telecom division, believes that SMS and other features like it will provide network operators with a way of differentiating service offerings.

However, GSM and other new premium-priced digital services will not replace the older analogue networks immediately. Existing analogue network operators believe there will be a slow and gradual migration to digital services. "Analogue systems will be with us for some time," says Mr Evers of Dataquest.

The pace of transition from analogue to digital cellular systems will vary from country to country. In those countries such as the UK which have well-established analogue systems which are not capacity constrained, the growth of GSM is likely to be relatively slow.

Analogue technology will also continue to play a key role in developing countries, including those of eastern Europe where cellular systems are already providing a relatively cheap alternative to dilapidated or non-existent fixed-wire telephone systems in many countries.

Elsewhere, fixed-wire telephone systems could also face a challenge - but from other new mobile digital cellular services which are just around the corner. For example, in the UK Vodafone plans to launch a second service on the back of GSM called the Micro-Cellular Network, or MCN, which will be a low-cost digital portable telephone service aimed at domestic customers.

Local MCN call charges are expected

to be significantly cheaper than GSM services, putting the service in direct competition with fixed telephone networks. MCN is due to be launched in the south-east of England later this year in direct competition with another digital system aimed at the mass market called the personal communications network (PCN).

One-2-One, - previously Mercury Personal Communications - a joint venture between Cable and Wireless and US West, plans to launch its PCN service in the London area this summer, expanding throughout the south-east to reach a quarter of the population by April next year. Hutchison Microtel, a joint venture involving Hutchison Telecom UK and British Aerospace, is also building a PCN network but is not expected to launch its service before next year.

Elsewhere in Europe, PCN networks are likely to be built in Germany, France and Spain. Some countries have also licensed call-only Telepoint services, such as Hutchison's Rabbit service in the UK and France Telecom's recently-launched Be-Box service in Paris.

In the office environment, cordless systems have been somewhat slower to take off than expected - perhaps because until recently they offered few if any advantages over the fixed-wire systems they were supposed to replace. However that could be changing.

Two competing digital alternatives have been developed, one based on the established CT-2 "telepoint" standard and the other built around the emerging Digital European Cordless Telecommunications (DeCT) standard for private cordless telecommunications.

Dataquest expects 10 to 15 per cent of office telephone systems to be cordless in five years. Certainly, research suggests there is a market for cordless ptx systems. About 60 per cent of business calls fail to reach their intended recipient on the first attempt causing annoyance and expensive games of "telephone tag."

Paul Taylor

## MOBILE DATA SERVICES

## Market is immature

MOBILE data has an identity problem. There is little argument that the market for mobile data is potentially enormous - but for the moment many customers appear confused by the plethora of emerging services and equipment.

Market size estimates vary wildly but Arthur D Little has identified 3.8m potential users for wireless data services in the US by the end of the century and PA Consulting has predicted that there will be 2m users of two-way mobile data in the UK by the end of the decade.

To date most mobile communications have focused on voice. However data transmission has several key advantages over voice telephony: it is generally cheaper, quicker and more accurate and while pagers and cellular phones play an important role, they have limitations when it comes to transmitting complex or

The UK government issued five 25-year licenses for nationwide public mobile data networks in October 1991. Prior to this only privately-owned radio networks had existed. The new licence winners were Cognito, DMC, Hutchison Mobile Data, Motorola and Ram Mobile Data.

Of these, DMC and Motorola did not take up their licences but Paknet, now owned by Vodafone, was subsequently awarded a mobile licence in addition to its existing fixed licence under which it had been providing a packet-switch data service.

Cognito was closed after the sale of its parent, Dowty Group, last year, but was relaunched last autumn after a management buy-in by out deal. Cognito's new service provides customers with a mobile two-way text messaging system using a hand-held communicator called a Messenger which has a small screen and keyboard and operates via the group's nationwide data cellular network.

Hutchison Mobile Data and Ram Mobile Data have also launched their mobile data services - using rival and incompatible equipment. Hutchison's system is based on Motorola's RD-LAP system which is also used by Deutsche Telekom in Germany while Ram, a joint venture involving US-based Ram Broadcasting and BellSouth, France Telecom, Swedish Telecom and Bouygues is using

Motorola's packet-switching technology developed by Ericsson. Motorola is beginning to emerge as a de facto standard in Europe. So far, Ericsson has won contracts from seven out of the 10 European mobile data licensees awarded. The European Telecommunications Standards Institute (ETSI) is still working on an official standard which is not now expected before 1996 at the earliest.

In the meantime the relative growth of competing mobile data technologies probably depends on how quickly useful applications software is developed. This is clearly recognised by Mr John Jarvis, Ram's new chief executive in the UK, who says the group is encouraging the development of new vertical and horizontal applications, and the migration of existing applications running on private data networks.

Already, more than 100 application projects are in trials with Ram. Among the applications which have recently been adapted for use on the Ram system are Dispatch, a Windows-based fleet dispatch software and hardware package, and Remote-1, a comprehensive

field call activity management tool and communications package. Ram and Computer Services for Industry have jointly developed Mobilink-400

field call activity management tool and communications package. Ram and Computer Services for Industry have jointly developed Mobilink-400, an interface enabling portable terminals to interact with IBM AS-400 systems. In addition, Ram and Lotus Development have recently announced an agreement to develop a wireless version of Lotus cc-Mail, the market leader in local area networks (LAN) based electronic mail systems which will enable portable computer users to send and receive electronic mail messages.

Mr Jarvis believes that having applications in use by real customers will give public mobile data an important head start against GSM and reinforces mobile data's distinct advantages over other mobile technologies. "We have an edge in response time and in terms of cost," he says.

One area which appears to hold particular promise for public mobile data is fleet and freight management, monitoring and security. This is also the specialist niche chosen by Securicor Datatrak. A new version of the established automatic - tracking Fleetrak system enables drivers to send and receive messages using in-vehicle terminals and printers. Securicor Datatrak owns and manages its own wide area radio-based communications network in the UK and claims that its system has a number of advantages over other mobile data services including faster set-up times.

Over the next seven years it should become clear which mobile data technologies are going to survive the inevitable shake-out. Like many other segments of the fast-expanding mobile communications industry, mobile data is still an immature market with competing technologies jostling for position.

Paul Taylor



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\* World Competitiveness Report 1991 & 1992

مكتبة من الأعمال



## TELECOMMUNICATIONS IN BUSINESS 3

## ■ SATELLITE-BASED SERVICES

## Truly global mobile network

By the end of the decade it is likely that satellites will have added another dimension to mobile communications and provided the first truly global mobile telecommunications network.

Satellite-based systems already provide a number of key telecommunications services, particularly maritime and aeronautical communications services where land-based systems are not an option.

The market for these systems is dominated by Inmarsat, the London-based Inmarsat International Maritime Satellite Organisation.

According to Mr Justin Jameson, an analyst with Datamonitor, the number of Inmarsat terminals in use is expected to grow from 28,387 last year to 73,268 in 1997, a compound annual growth rate of 20.9 per cent.

Mr Jameson believes that the highest growth will take place in the aeronautical market "where both commercial and private aircraft are increasingly being fitted with Inmarsat terminals allowing the crew and passengers to make calls and send faxes."

Meanwhile the land and maritime markets will continue to grow as a result of the introduction of lower-cost Inmarsat-C and Inmarsat-M terminals including the lightweight briefcase-sized portable systems

used by geologists and others who need to send or receive private and secure information from inaccessible or remote places.

However, some time before the end of the century Inmarsat will probably face competition from a new generation of low earth orbit satellites (Leos) which orbit at a height of about 12,000 miles, Leos

Currently there are five US groups proposing Leo-based telecommunications systems. The best known, and probably the most ambitious, is the proposed \$3.4bn Iridium system, lead by Motorola.

The others are Constellation Communications with Aries, Ellipsat (Ellipsis), Loral Qualcomm Satellite Services (Globalstar), and TRW Space and Electronics (Odyssey).

Perhaps the biggest problem is the apparent potential oversupply of satellite system operators. Analysts believe there is only room for two new Leo-based services

orbit much lower at 550 to 6,000 miles.

Because they are closer to the earth, Leos should suffer less from the characteristic voice delay or echo heard on some satellite voice services.

In addition, Leo-based systems will allow the use of lighter and cheaper portable equipment.

However, Leos do have some disadvantages. They are solar powered and since they spend more time in shadow they have a much shorter lifespan than Geos - about five years compared with 10-12 - and they are much less powerful so more of them are needed although that may generate economies of scale in satellite production.

A sixth group, American Mobile Satellite (AMS), a joint venture between McCaw, Hughes and MTEL, already has a geostationary satellite system in operation. However, it only has a few hundred subscribers and just covers North America.

The other companies, with more ambitious plans for worldwide service, hope to begin operations in 1996 or 1997. The number of satellites in each system or "constellation" varies. Motorola's Iridium would have 66, Aries 48, Ellipsis 24, Globalstar 48 and Odyssey 12. The cost estimates also vary dramatically from a minimum of \$200m to more than \$3bn.

All except Ellipsis would use cir-

cular orbits but Ellipsis's satellites, as its name suggests, would use elliptical orbits which the group claims will provide significant advantages including longer coverage of key markets using fewer satellites.

The targeted subscriber base also varies considerably. Motorola predicts about 2m customers for Iridium by the turn of the century including about 700,000 subscribers for data alone. Motorola expects to charge between \$2,000 and \$3,000 for handsets and about \$3 a minute for calls.

Some systems such as Odyssey could handle up to 15m subscribers, but most of the groups are basing their costings on much more conservative estimates. Even so, some analysts such as Mr Dean Evers of Dataquest, question whether they can make economic sense as a mass market voice telecommunications delivery system.

However, most of the Leo systems would also be used to provide other high value services including data communications and radio tracking.

Even then their backers face some formidable cost and other problems. One unresolved issue is about how to regulate Leo operators - an issue which is exercising the European Commission. Other issues, such as deciding which fre-



quencies to allocate to Leos, have already been agreed in principle.

But perhaps the biggest problem is the apparent potential oversupply of satellite system operators, a problem which is not eased by Inmarsat's own plans for a new 2bn sat-

ellite-based global mobile telecommunications service designated Project 21.

Most analysts believe there is probably only room for two new Leo-based services.

What does seem certain, however,

is that the dream of a universal mobile telecommunications service will move a step closer with the launch of new satellite-based global mobile systems.

Paul Taylor

## ■ Value-added services: Packet-switched and other data services

## Changing habits of a lifetime

Telecommunications and computer companies are running around like headless chickens in an attempt to find the right mix of products and services to meet the surge in demand for linking together networks of personal computers.

It would have been inconceivable 10 years ago to have a telephone company moving at the pace of a one-legged chicken, let alone a headless one, to meet its customers' needs. But data communications, along with mobile communications, are the two services which the European Commission has mandated member states to open to competition.

Telephony companies are having to change their habits of a lifetime because unless they innovate, smaller, more dynamic companies will become the main drivers of the market.

A new range of products and services is emerging to meet the growth in networking and internetworking. Large companies are demanding solutions to improve their ability to interconnect ever-growing

numbers of local area networks (Lans) pieced together on different geographical sites. Lans are proliferating as companies switch critical applications from the mainframe computer to personal computers. Lans traffic is increasing at a rate of 30 per cent a year.

There is no single solution for interconnecting Lans. In the past, a corporate telecommunications manager has tended to use private circuits. But running them internally can prove very difficult. Most local area networks have been pieced together over several years and vary widely in size, capacity and in technical characteristics.

Many companies would prefer to hand their business over to a public network. Traditional X.25 packet-switched data networks are one possibility, but high prices across Europe, coupled with uncertainty about whether X.25 can meet current and future requirements for high bandwidth services, are causing many to delay their decision.

Telephone and computer companies are now developing products known as fast-packet

switching services. In some cases, they are offering improved, higher speed versions of X.25. But the real revolution in the data communications industry is the development of the much-trumpeted frame relay, a streamlined version of X.25.

There are already several hundred users of frame relay at frame relay is to "wait and see." Nevertheless, Yankee Group expects frame relay to see "significant growth in Europe's nascent cross-border data transport market over the next three years."

Frame relay is simpler than X.25 and its lower cost is one of the main reasons why the Yankee Group expects it to break through in Europe. In the longer term, its faster speed will be an advantage. Laboratory tests show that frame relay can run at up to 45 megabits per second; much

higher than the 2 megabits commonly thought to be the practical ceiling for standard X.25. In practice, no operators offer frame relay at more than 2 megabits but this is still much quicker than most existing X.25 networks in Europe. Ranco Europe, a supplier of components to the vehicle and domestic appliance sectors, chose frame relay for its pan-European network because of its speed. Its existing IBM-managed network service operates at a maximum of 19.2 kilobits per second which is not fast enough for Ranco's plans to develop just-in-time manufacturing.

Ranco's customers want deliveries to arrive at the precise times the products will be used and thereby avoid costly storage. By consolidating information on orders, sales, shipments and stocks on one frame relay network, Ranco can better meet tight delivery schedules.

Lucrative Pan-European contracts such as Ranco Europe's are a big draw for leading value-added network operators such as Infonet, Sprint and American Telephone and Telegraph. This market is set to increase sharply with the ending of restrictions on competition in Europe at the start of this year.

But there will be less competition for smaller companies need to invest in networks linking together the largest

towns and cities. Yankee Group believes that BT and Transpac - a wholly-owned France Telecom subsidiary - are the two companies best positioned to capitalise on pent-up demand in Europe's domestic markets for high speed data services.

BT inherited its European presence from Tymnet, the US data communications company it bought in 1989. It has built on this and now has a formidable frame relay presence in all big western European cities. Transpac is concentrating on X.25. It has bought private X.25 networks in six European countries and converted them into an extensive European infrastructure.

Transpac has fought a rearguard action against frame relay, which, it says, is unsafe because there is no guarantee that the data will arrive in one piece. But Transpac is looking closely at another fast packet technology called Asynchronous Transfer Mode (ATM)

which has the potential to handle large volumes of data more smoothly than its cumbersome name suggests.

A number of little-known US and UK vendors such as Cisco, Synoptics, Fibrenet, Wellfleet, Network Equipment Technologies and Netcomm are rushing to supply ATM products for the private Lan interconnection market.

The jury is still out on whether X.25, frame relay or ATM emerge as the leading technologies for data networking. But the telecommunications industry is in no doubt that the sector as a whole will explode over the next few years. US telecommunications consultancy Frost and Sullivan, for example, forecasts that the market for fast packet switching will rise from \$74m in 1992 to \$22m by 1997.

Mark Newman

The author is editor of the FT newsletter Telecom Markets

## ■ Value-added services: EDI and electronic mail

## Faster, cheaper, more reliable

THE paperless office remains a dream that seems to slip ever further into the future. Nevertheless, the growth of electronic trading, using electronic data interchange (EDI) and electronic mail, is having a profound effect on a growing number of business and other users.

EDI is a value-added telecommunications network service which enables two organisations, usually customer and supplier, to exchange routine business documentation such as orders and invoices using standard electronic forms and their own computers linked through a service provider.

It is often a faster, cheaper and more reliable means of exchanging information than the traditional paper-based business transaction and can play a crucial role in automating a transaction chain. For example, Tesco, one of the pioneers of EDI use in the UK, has automated its entire transaction chain of recording sales, amending and checking stock records, re-ordering goods, receiving and checking invoices and making payments.

By reducing the time taken to process a transaction, manufacturing companies and retailers can reduce their level of stocks and adopt management techniques such as just-in-time inventory control. Trading information electronically can also help suppliers and their customers match their operations more closely to sales patterns and other variables, and lead to a closer "partnership" between supplier and customer.

EDI also automatically sets up an "audit trail" which enables an organisation to check and validate electronic documentation.

These benefits have spurred growth in the use of EDI in the US, where it originated, and in the UK which leads Europe in EDI usage in the private sector, although France has made a co-ordinated effort since 1989 to implement EDI in the public sector.

In other countries such as Germany and Japan, electronic trading does take place domestically but is limited because the systems depend on non-standard software implementations or industry-based proprietary systems which are not interconnected.

About 7,000 companies and other organisations in Britain are estimated to be using electronic trading and the number is growing by between 20 and 30 per cent a year. But there is still much room for growth. Some recent estimates have suggested that less than 5 per cent of business transactions in the UK are currently handled by EDI. Of the top 1,000 companies, roughly 300 use EDI.

International Network Services (INS) is the biggest of the UK-based EDI services providers with more than 55 per cent of the market and a 35 per cent share of the overall European market.

INS, jointly owned by ICL and GEIS, the

US-based network services company, provides three main EDI "communities", INS-Tradnet, the main service for retailers and their suppliers, BrokerNet for the insurance sector and FleetNet for the fleet leasing-management sector.

Its nearly 4,500 UK corporate customers cover 35 market sectors and include 73 of the top 100 UK companies, nine of the top 10 retailers, the 10 largest pharmaceutical companies, 17 of the top 20 non-life insurers and four clearing banks. Altogether 15,000 organisations worldwide use its network services which link 100 countries and 750 cities.

INS-Tradnet handles more than 6m documents a month and Mr Lee Tate, INS managing director, says the group signed more than 1,100 new companies up for the service last year. However he acknowledges that the market is becoming more competitive.

"The competition is much tougher," he says. Other EDI network service suppliers in the UK include AT&T, IBM and, since October 1991, British Telecom. In response, INS has dropped its prices. "We

The price cuts were designed primarily to encourage small companies to adopt EDI

are going after higher volumes," says Mr Tate.

Earlier this year, INS cut its charges following price changes by competitors in 1992. A basic start-up package including Intercept-Plus PC software, joining fee and 12 months usage of INS-Tradnet now costs £1,450.

The price cuts were designed primarily to encourage small companies to adopt EDI. A new "unbundled approach" to charges means that companies wishing to exchange documents with a single trading partner can buy a minimum package at the outset and then take advantage of the integrated INS-Mail facility to add features as their EDI usage develops.

Companies use these EDI service suppliers because they provide a central "post office" function, directing message traffic to the appropriate recipient and providing any "data translation" needed between different computers or message standards.

Service suppliers, software companies and even the big EDI trading partners offer software packages which handle links into the different services and the conversion of data from business systems into the correct message format standards.

UK sectors which have pioneered the use of EDI include the motor and electronics industries and the retail trade, particularly the supermarket chains, and in the financial services sector, the insurance industry.

EDI is a relatively new value added service - INS, for example, was only set up in

1985. Nevertheless some key trends have already emerged.

In particular, EDI is becoming far more international. There is an increasing use of Edifact, EDI for Administration, Commerce and Transport, an emerging group of international message standards which avoids the need for conversion from one national or industry standard to another.

Between 15 and 20 per cent of INS's customers now have international links. For example, retailers, led by Tesco and Boots which have developed extensive domestic supplier networks using EDI, are now doing the same with overseas suppliers.

In addition, Mr Tate says that a large number of countries are beginning to set up EDI services in their own right, often using the software and technical know-how of established EDI players such as INS, IBM and BT.

For example, INS has franchised local companies in Ireland, Northern Ireland, Portugal and South Africa to operate the INS-Tradnet service locally and is negotiating other deals in Malaysia, Taiwan and with the PTT in India. Other UK-based service providers have franchised operations in Singapore and Korea.

"Our software runs under Unix so we can put it onto any hardware platform," says Mr Tate. The system in Ireland, for example, runs on an IBM RS/6000 but INS is working with Unisys in south-east Asia and with Hewlett-Packard in India. In Ireland, Portugal and India, where the franchisees is the local PTT, the service runs, or will run, over their own networks. In other cases, for example South Africa, it is delivered via a managed network.

EDI users are also becoming increasingly sophisticated. Originally, EDI tended to be used only for basic transactions such as ordering and invoicing. However, as familiarity with electronic trading has grown, so has the range of information transmitted over EDI links.

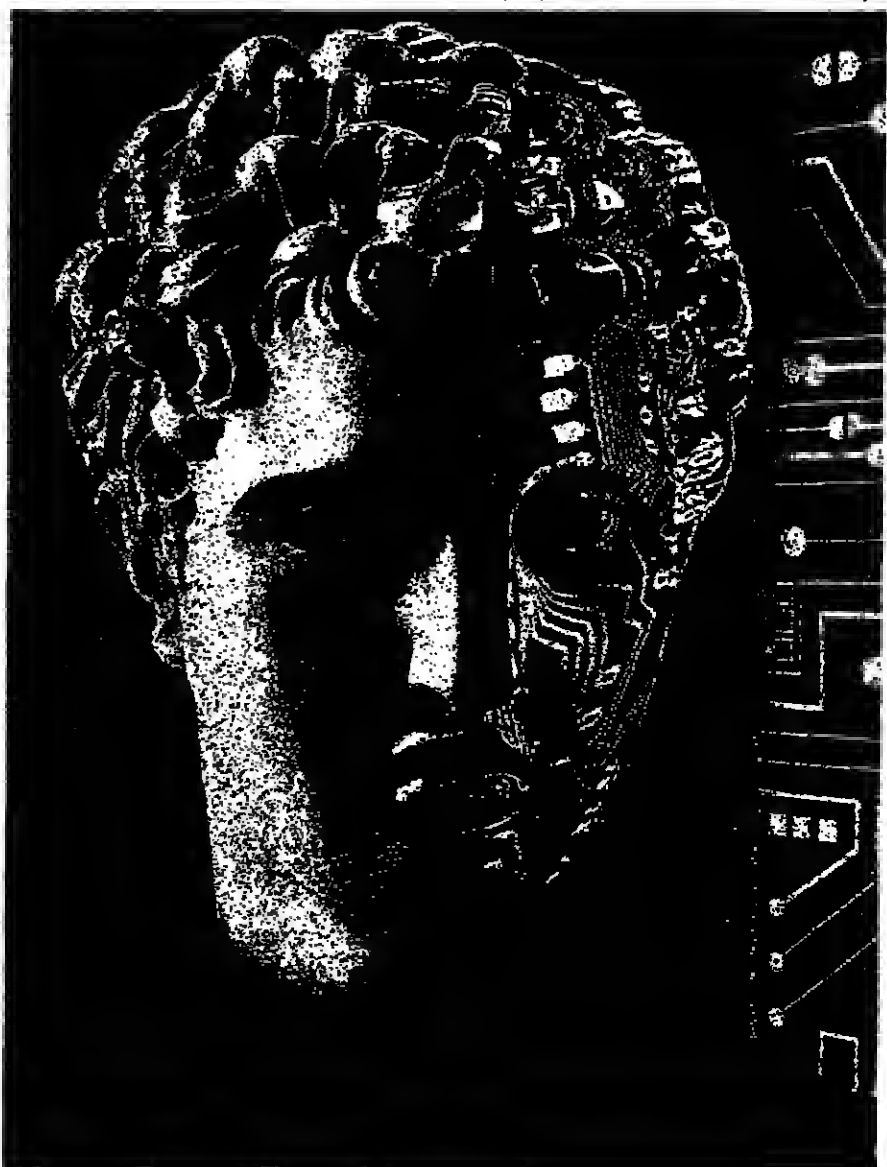
Tesco now exchanges 13-week sales forecasts with a quarter of the 1,200 suppliers which trade with it electronically. Tesco has also started communicating with individuals in its supplier companies through the INS electronic mail service. There are 4,000 electronic mail users in Tesco and they can communicate with 3,000 contacts in 800 suppliers.

EDI is also being integrated with existing internal electronic mail systems and other computer applications. Using EDI in this way enables a customer to link two incompatible Email systems, for example in different departments or divisions of the same company.

Finally, EDI is gradually reaching a wider audience including government departments such as the Education Department and HMSO in the UK, and new sectors such as the book industry.

Paul Taylor

Heros: The ancient Greek god of Communications and Commerce. Sculpted by Praxiteles 4thC. B.C. Museum of Ancient Olympia



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## TELECOMMUNICATIONS IN BUSINESS 4

## ■ Cable telephony: What's possible

## Interest is running high

The Holy Grail of communications technology for business is the so-called "ideal desktop" wherein a data workstation also serves as a networked video terminal to provide real-time interactive audio, full-motion, high-quality video, animation, spreadsheet, database, telecommunications, document processing and other applications—all on the same screen.

Interest in such networked multi-media applications is running high and significant developments in software, hardware integration and switched network accessibility are expected to make them attractive as strategic business tools between now and the year 2000.

The bugbear is that multi-media and the other emergent telecoms technologies are bandwidth-hungry. Broadband is expensive and must therefore be capable of instantaneous allocation on demand rather than being dedicated to any particular users or applications. It seems probable that specific sectors of business will take up broadband before the telecommunications community as a whole, probably with Lan-to-Lan and Lan-to-Wan interconnectivity driving the market in the first instance.

At the same time, European businesses are widening their corporate communications bandwidth as computerisation becomes ever more ubiquitous. Ironically, the recession has also spurred technological change with many organisa-

tions re-defining and streamlining themselves into co-operating networks of smaller and more efficient units.

Replacing copper with fibre optics is a massive and enormously expensive undertaking. In fact, widespread deployment of universal broadband networks based on optical fibre to business and residential users will not begin in Europe until after the turn of the millennium. Industry experts generally agree that it will not be fully completed until the end of the second decade of the next century or even later.

This, combined with the investment already made in copper cabling, will ensure that conventional coaxial or twisted pair-type wiring will co-exist with a growing fibre optic infrastructure for many years.

Copper cable is still being installed and the bandwidth capabilities of traditional wiring systems are being enhanced. For example, two new services just introduced in the US, High Bit Rate Digital Subscriber Line (HDSL) and Asymmetrical Digital Subscriber Line (ADSL), are capable of transmitting high levels of data over non-repeated twisted-pair copper cable. Field trials of copper-transported



Optical fibre trials in Bishop's Cleeve, Hertfordshire. Replacing copper with fibre optics is a massive and enormously expensive undertaking

television are also under way using ADSL technology.

Nevertheless, optical fibres have several advantages over copper. These include a significantly greater data capacity—the FDDI standard calls for a data rate of 100Mbit/s compared with Ethernet at 10Mbit/s and token ring at 4 or 16 Mbit/s—enhanced network security and immunity to electronic noise. They also allow a greater distance between stations and nodes. The FDDI specifies that stations can be 2km apart using multi-mode fibre or up to 40km with the latest mono-mode cable, with a

total network coverage of up to 100km. Over the past few years, single mode fibre has emerged as the popular "fibre of choice" and new developments, such as a cladding glass layer that contains a titanium oxide dopant, have produced a particularly tough, durable and reliable medium.

However, fibre optics also have their drawbacks. For example, every 22 miles the light signal must be converted back to electronic pulses, amplified and then regenerated as a light signal once more. This slows transmission, and it is these staging points and

other electronic pathways at either end of the optic fibre link that dictate maximum signal transmission speeds and cause data bottlenecks.

This could soon be about to change. Some eight years ago scientists of the Optical Fibre Group at Southampton University showed that optical fibre cores doped with the rare earth, erbium, were more reliable and efficient. Later work has demonstrated that erbium doping facilitates almost perfect light amplification and erbium amplification systems have been tested to a distance of 100m kilometres with minimal signal attenuation and complete data integrity reported.

The ramifications are enormous. With optical switches installed at the exchanges there will be no electronics to delay signals and communication at very close to the speed of light will be possible. Not only that, some 25 Tbit/s (25,000 Gbit/s) of very cheap bandwidth would be instantly available on demand—more than enough to cope with any planned or imaginable application for any business of any size.

Erbium amplified systems have been specified for several new long-haul submarine cables and also for various ter-

restrial networks. Some will be in place before the end of the century.

Today's fibre optic networks are lit. That is to say telcos provide the fibre optic infrastructure plus the services that run over it—and garner revenue from both. In future we will see dark fibre systems where the end user will decide what applications and services to operate and also provide them. A telco would then be in a similar position to that of a utility company today—providing a pipeline service, but unable to dictate what is to be connected to it, how equipment is to be used, when or by whom.

With BT and other suppliers forbidden to provide home entertainment services over their networks until 2001, the economics of deploying fibre optics is being distorted by a rigged market. In a free market, BT and its rivals could generate additional revenues from entertainment services and use them to offset at least some of the huge costs involved in laying a fibre optic infrastructure. Businesses, because they need faster and better communications, will determine when and where the new broadband systems are built. They will deploy the new technology because, in the end, they cannot afford not to.

Martyn Warwick

The author is deputy editor of *Communications International magazine*



This prototype submarine repeater uses optical amplifiers and fibre doped with erbium which facilitates almost perfect light amplification

## ■ Cable telephony: What's happening

## Evolution rather than revolution

IN the brave new world of deregulated, liberalised, privatised and competitive telecommunications, many new services and applications are the direct result of actual market demand.

The days are long gone when a monolithic PTT could present a captive business user base with an expensive new technological development that might have no relevance to real market needs.

Today, business users judge the potential of telecoms applications in terms of just what practical benefit they can bring to their organisations. They can choose from a plethora of new technologies, all with their attendant benefits and some occasional, and rather less well-publicised, disadvantages.

Telecoms and datacoms are converging to the point where it is difficult to tell them apart. It is now possible to have digital audio, video and data applications delivered straight to the desk-top via the public switched telephone network, a PBX, leased lines, microwave links, satellites, fibre optics, radio and Lans, Mans or Wans. However, despite the strong growth of broadband fibre optic cabled systems, most telecommunication still goes over copper wire at some point during its transmission.

Many of the new technologies have been designed to provide enhanced bandwidth on existing cables and a big attraction is that they protect the large investments already made in conventionally cabled infrastructures. For example, High Speed Digital Subscriber Line (HDSL) enables 1.54Mbit/s to be delivered over existing copper pair wires and industry analysts believe that such services will find a ready market in Europe.

Regulatory issues are forestalling the development of the pan-European and cross-border carrier systems that are vital to development of business in the European single market. Very Small Aperture Terminal (Vsat) and other satellites services have been particularly badly affected.

Practical Lan-to-Lan and Lan-to-Wan interconnect applications are very popular in business and there has been a concerted drive throughout the EC to deploy frame relay services for packet switched data communications. In fact, frame relay, a relatively simple and inexpensive broadband technology, is seen as a viable pan-European corporate network in the very near future.

ISDN, on the other hand, long touted as the ideal universal telecommunications solution, has not yet proved to be as popular as expected. Take-up of the basic rate service has been slow and, until recently, there were very few ISDN products on the market. Nevertheless, ISDN has made possible the development of intelligent cell processing software in switches and advanced signalling systems such as C7, DASS and DPNS.

In 1988, the CCITT published the basic principles of broadband networking: B-ISDN. The main feature of the B-ISDN concept is the support of a wide range of audio, video, data and image applications on the same network. The target transfer mode for broadband ISDN is the Asynchronous Transfer Mode (ATM) a technique whereby digitised information is inserted in small, fixed-length cells for transmission and switching through a network.

ATM, a derivative of fast packet switching technology, can carry all types of information in a common format and provide the high throughput needed for emerging broadband applications. Potentially enormous matrix-style cell switches, which do not suffer

the bandwidth constraints imposed by shared media switching techniques, can be built to handle multi-media traffic.

The time taken for Lan devices to process data is called latency. ATM can handle real-time signals with close-to-zero latency because the switch reads the packet address and sends it to its correct destination, probably before the end of the message has even left the originating device. Speed such as this allows ATM to handle delay-sensitive traffic such as voice and video, as well as data.

ATM is on trial throughout Europe now and indications are that it meets current communications needs, can carry the new video and multi-media applications well and also has the sufficient potential to cope with any likely future services. Another technology is Synchronous Digital Hierarchy (SDH) which is a new flexible transmission standard defined by the CCITT. It defines a new type of frame structure for data transport that creates additional transmission capacity and a new structure for handling different data channels. Development and trials of SDH continues but it is unlikely to be directly connected to customer sites much before 1997.

Many organisations are continuing with the private networking arrangements that were first established in the

**Virtual Private Networks are more flexible, provide more capacity, and are generally cheaper**

1980s. They typically involve managed bandwidth networks supporting distinct voice and data applications and telcos continue to provide leased bandwidth, in the form of private circuits, to support these architectures.

However, Virtual Private Networks (VPNs) are more flexible, provide more capacity, and are generally cheaper. The latest popular architecture is a hybrid of traditional private and VPN facilities. It seems likely that voice applications will move to VPNs together with lower bandwidth data services. New higher bandwidth services will stay on private dedicated platforms until frame relay services such as ATM become available.

Business organisations are demanding skilled, fast and responsive management of their increasingly complex networking environments. BT, Mercury and other telecom companies could find an additional source of revenue by providing network management services in which they would be responsible for much of the day-to-day running of someone else's corporate network.

Perceived corporate benefits rather than the technology itself now determine the direction that business telecommunications services are taking. Users generally prefer evolution to revolution and they want new applications and products to work with existing equipment, smooth integration into existing networks, and interoperability with products from other, different vendors.

This has to be achieved at reasonable cost. They do not want unnecessary added complexity, high investment costs, and esoteric new network management platforms.

Vendors and service suppliers had things their own way for a long time. Customer-centred organisations who can make telecoms easier, simpler, faster and cheaper for the users will be successful. Those that cannot deserve to fail.

Martyn Warwick

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How many uses are there for a smart card? Almost as many as for the computer chips which sit inside these credit card-style devices. Potential uses range from keeping networks secure to helping inept cooks - just plug your smart card into the computer and it tells you what to do and even controls special kitchen scales.

Despite the possibilities, smart cards have failed to live up to optimistic forecasts of suppliers and market analysts who said they would replace magnetic strip cards for bank customers and be in widespread use by the 1990s. One reason this has not happened is cost. Even when bought in bulk smart cards cost about 25 each instead of 40p for a magnetic card.

The UK has lagged behind in the take-up of smart cards. In France, they are used for phone cards. In some Belgian banks, such as the state-owned ASLK, customers carry a personal smart card. This is swiped through the teller's terminal to check the customer's identity. Once this is established the customer can get the same service at any of the bank's 1,249 branches.

However, worries about bank and charge-card security are generating new interest in smart cards around the world. The drawback of magnetic cards is that they can be forged using fairly low-cost equipment. There have been several well-publicised cases of counterfeit cards being used to steal money from cash machines.

In Singapore, the government is considering basing the identity cards that all citizens must carry on smart cards.



One use for smart cards will be to improve the security of mobile phones



Smart cards will help to prevent illegal use of new GSM digital mobiles

### SMART CARDS

## UK lags behind in take-up

The technology could also be used for their banking transactions.

Card forgery is a growing international problem and the advantage of smart cards is that they are harder to reproduce. They can also benefit the customer. For example, because smart cards contain a computer memory, they can store a list of transactions. A customer could keep a record of cash withdrawals without having a wallet bulging with ATM (Automated Teller Machine) receipts.

This could be checked from time to time at the cash machine itself, or perhaps on a small card reader usable at home. It might even be possible to load information from the smart card into a home computer and use it to update a spreadsheet of domestic finances. However, there are other ways of making bank

cards more secure. For example, some banks and building societies are embedding photographs into their charge cards.

One of the newest plans for smart-card use also concerns security. They will be used in the forthcoming GSM digital mobile phone network to cut illegal use of mobile phones. Users will have to insert a card and tap in a personal identity number before they will be able to use their phones. Without the card, the phone will be useless and cards reported as stolen will be cancelled. This could make mobile phone theft a thing of the past. More than one card will work with a single GSM phone to enable separate business and social use.

There is also talk of using smart cards to pay UK road tolls if the British government's idea of introducing selective road charging goes ahead. GEC Marconi is testing

a system called Timezone in which an electronic unit is activated by a beacon as the motorist enters a toll area. The toll is then debited from a smart card. The system is to go on trial in Richmond upon Thames. GEC says it lets the traffic flow because cars do not have to stop as they pass the beacon.

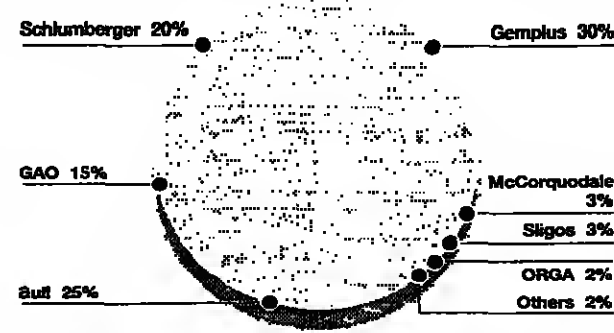
Another breed of smart cards which is particularly well-suited for transport use is the "contactless" smart card. Demand for these is growing exponentially, according to Mr John Meikle, sales manager of GEC Card Technology. The cards work when they are brought within a few centimetres of a reader device, making them easy for drivers to use.

Contactless cards are also useful for those who prefer to take public transport. The Greater Manchester Passenger Transport Executive is to issue

contactless cards developed by GEC Card Technology of Walsall, England to its passengers. A similar, less ambitious scheme, using GEC cards, will begin testing with London Buses in Harrow in July. Another is planned for Oslo.

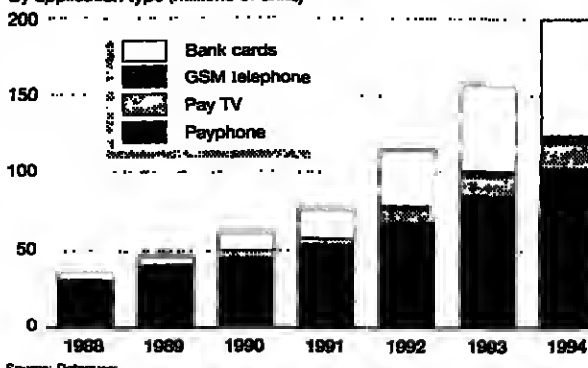
To begin with, the Manchester scheme will involve 500,000 cards to be used on the city's 2,700 buses plus the "Metro-link" and rail systems. The cards will act as prepaid tickets, usable many times. Each time the passenger makes a journey, the fare will be deducted from the card as he or she boards the bus. The cards will prevent delays caused by people fumbling for the right change because they can be read through wallets or purses. Customers will be able to get a print-out of their last 20 journeys and the transport executive will get better information about travel patterns.

### 1992 European smart card market share



### Estimated European smart card production

By application type (millions of units)



The transport executive is also talking to retail outlets about the possibility of renting out memory space on its smart cards. This would enable passengers to use the card for buying such items as petrol or their morning paper. The cards are rechargeable and can be topped up at selected post offices and newsagents.

One of the biggest applications for smart cards is in network security. Northern Telecom's European research arm, BNR Europe, uses a metal-encased smart card from US company Security Dynamics to prevent computer hackers stealing valuable research information from its computers.

BNR Europe says it has bought 40 of the company's SecureID cards and plans to order more. They provide a way of restricting access to the company's network without giving travelling executives a lot of extra gadgets (such as card readers) to carry.

To access the computer from a hotel room, for example, an executive types in his ID and a password. If he or she gets this right, the computer will request a passcode number. This is a random number generated by the SecureID card and the numbers change every 60 seconds. Without the passcode number the user cannot log on.

Mr Jim Geary, of Security Dynamics in the UK, says the cards are also used by several telecoms companies, such as American Telephone and Telegraph (itself a maker of smart cards) to prevent fraudulent access to their networks. For example, customers of BT's Global Network Services data network can opt to use SecureID to provide an extra level of security for their computer systems.

Smart cards can also be used to improve the in-house security of computers. In its headquarters in Lisle, CTR Nord-Est - a regional clearing centre for the savings banks of northern France - has personal computers with built-in card readers. Without inserting the correct smart card, users cannot log on to its clearing system.

Joia Shillingford

The author is editor of the FT newsletter Business Computing Brief

### Video dial-up services

## An interesting battle looms

where the both the regulatory environment and the market is more conducive to the deployment of such interesting new services.

The situation in the UK is somewhat different, cable TV is far from ubiquitous here and legislative strictures are preventing the biggest potential players in the market, the telephone companies, from competing with the cable companies.

The government, allegedly to allow infant cable TV companies time to grow up, has forbidden both BT and Mercury to provide home entertainment services over their networks until 2001.

BT attempted to pilot video-on-demand services in East Anglia but the Cable TV Association (CTA) successfully contended that video-on-demand effectively constituted entertainment delivery.

The argument hinges on just what constitutes broadcast entertainment. Television is a

one-to-many medium that can provide a minimal degree of interaction via teletext type services.

Telephony is a one-to-one medium, (except for business-based audio and videoconferencing services) that by its very nature is full duplex and therefore has the potential to be

The user can make or receive telephone calls over the same copper pair without affecting the digital transmission channels

made highly interactive. The question is, is it broadcast?

Wrangles such as this nicely illustrate how shortsighted and counterproductive it can be to make arbitrary rulings on how, when, where and why a technology may be deployed while that technology is still actually being developed.

From the technology angle, subscriber transport of video signals can be achieved over existing copper loops using Asymmetrical Digital Sub-

scriber Line (ADSL), fibre in the loop (FTTL) or hybrid fibre-coaxial cable distribution networks.

ADSL is the transport link that will allow local exchange carriers to use existing copper wires to deliver broadband services that provide high-speed data, digital audio and video to

the home or business. It can carry a one-way transmission of a bit-stream up to 6Mbps from the public network to customers, while at the same time providing an interactive control bit stream from the individual customer back to the network; and still retain the use of the copper pair as the plain old telephone system (POTS) line.

Asymmetric refers to the difference in bit rate between the two directions of transmission.

When ADSL was first proposed, in the US in 1988, there were two competing technologies that seemed to be capable of delivering the 1.5Mbps service - as it was then envisioned - over the installed copper base. These were Quadrature Amplitude Modulation (QAM) and Discrete Multi-Tone (DMT) which is also known as multicarrier.

Further research and development showed that DMT was capable of providing high-quality performance at speeds in excess of 8 Mbit/s.

It does this by dividing available bandwidth into 256 channels and uses digital signal processing to dynamically adjust parameters as necessary to minimise errors and crosstalk.

DMT technology supports four "A" channels at 1.5 Mbit/s, each of which may carry a video signal of VCR quality, or two channels can be merged to carry a high-quality, outside broadcast-type real-time video

signal. For the future, all four channels operating in concert will be able to transport an extended definition TV signal.

DMT also carries a 384Kbit/s ISDN channel which can be used to access to corporate LANs for teleworking applications using a frame relay service.

A further basic rate ISDN channel is supplied, which contains two 64 Kbit/s "B" channels and a single 16Kbit/s "D" channel.

Along with these comes a signalling-control channel, again operating at 16Kbit/s, which allows the user VCR-type controls over what is being shown on the "A" channels.

Control options include all the usual video recorder functions such as search, pause, reverse and fast-forward. A separate embedded operations channel permits internal system maintenance, monitoring, audit, telephone company administration and billing functions.

Finally, the user can make or receive telephone calls over the same copper pair without affecting the digital transmission channels just described. What is more, because the ADSL is passively coupled to the POTS line, the subscriber's POTS capability is unimpaired even in the unlikely event of a systems failure.

Taken together, these channels provide an aggregate transmission rate of close on 7Mbit/s that could take

ramarkable new broadband services direct to the home over existing copper cabling.

Video dial tone also requires an interactive system that must permit automated, random access media-independent storage and retrieval capabilities.

Sophisticated software must process subscriber requests and must provide subscriber interactive services, network interface support, robotics and drive control, statistical and accounting functions and video library and shelf management routines.

It is anticipated that such an automated system will deliver any video selection or other service, in less than 10 seconds, from a library of 10,000 to 15,000 titles.

Given the massive installed base of copper cable and the comparative expense of laying fibre optics, it seems likely that those systems that can exploit copper as a transmission medium will win a large share of the potentially huge video-on-demand market in the short and medium term.

Fibre will continue to be deployed and can carry more services than wire, but fibre to the home is a long-term prospect whereas fibre to the workplace is with us now.

The battle between the established and emerging telephone and TV interests could well be more interesting than some of the programmes on the box.

Martyn Warwick

### OUTSOURCING

## The telecoms revolution

One of the main tenets of modern management theory is that business organisations operate most effectively when they focus on those core operations where they have special expertise - and buy in the other services which they require.

Services ranging from catering to data processing and even manufacturing are now "outsourced" by companies and increasingly by government departments on both sides of the Atlantic.

Beginning in the 1970s, many companies built their own telecommunications networks for voice or data or a mixture of the two and installed complex private branch exchanges (PBXs). But today many large customers are either asking outsiders to manage their networks, or buying in the sophisticated telecommunications facilities and network services which they need.

Several other factors are also pushing companies towards the outsourcing solution for their telecommunications requirements in the 1990s. Among these are the growing complexity of telecommunications services, the rapid pace of technological change, the increasingly global nature of business, and the liberalisation of telecommunications regimes.

Liberalisation is leading to increasing competition between established network operators and a proliferation of service offerings for corporate clients.

These range from relatively simple value-added services such as automated facsimile "exchanges" to complex full outsourcing contracts where a contractor is responsible for providing a wide range of flexible telecommunications services to a customer on a national or international basis in what is generally viewed as a "partnership" arrangement.

Sometimes these outsourcing arrangements will involve the customer transferring assets and staff to the contractor.

There are several main categories of bought-in service on offer, although the dividing lines between them are blurred. They include:

● Centrex, where the features of a conventional company PBX - such as desk-to-desk dialing - are provided by the network operator who partitions off part of the public telephone exchange to act as a customer's office telephone system. The customer then usually pays a regular fixed sum for the exchange equipment used and a variable increment for the calls made, but avoids the need for substantial capital investment.

Centrex services have been available in the US since the early 1980s, but have been much slower to develop in Europe. "Centrex in the US is quite a substantial revenue earner (for the network operators), but in Europe it is only really available in the UK and Sweden," says Ms Cathy Borrow, an industry analyst with Dataquest. In the UK, Mercury and BT have both begun to offer centrex services.

● Managed Network Services (MNS), where most or all of the day-to-day running of a corporate voice or data network (Managed Data Network) is undertaken by an outside contractor.

These services are offered in the UK by a wide range of companies including the two domestic network operators and international competitors such as AT&T. For example, Mercury offers its Telecommunications Facilities Management Service under which Mercury staff supervise, operate and maintain a corporate network and provide round-the-clock technical support.

● Virtual Private Networks (VPNs), where the features and functionality of a private network based on leased circuits are provided instead on the

customer - stand to gain. "VPN gives users a better combination of cost and flexibility than any other service, while for the telcos it offers the opportunity to increase market share and reduce networking costs."

From the customer point of view the advantage is not just one of cost, although often there can be substantial savings. One significant advantage offered by a VPN is that it can be reconfigured rapidly to meet the customer's changing requirements. "Resources can be added to the system very quickly," says Mr Borrow.

With its operators keen to provide VPN services because they are cheaper to provide than leased lines, they enable network operators to "capture" the outsourcing revenues of private networks, and they provide a commercial justification for building "intelligent" network infrastructure. VPNs also offer the chance to increase market share by winning lucrative corporate business and new international business.

In the US the three inter-exchange carriers, US Sprint, AT&T and MCI, introduced VPN services for voice in the mid-1980s. Since then, VPNs have become the dominant service offering of the carriers to large corporations and almost all of the top 1,000 companies use the service, as do many smaller organisations.

But they are still quite rare in Europe. In Britain, VPN services so far have mainly been aimed at the large national and multinational companies. However, increasing competition between Mercury and BT, particularly for the big business customers, and tariff re-balancing in the late 1980s which changed the economics of private leased circuits in the UK has helped stimulate interest in VPNs.

The recession also focused management attention on what Mr David Sexton, customer director for managed network services at Mercury, calls "sticking to the knitting." He also suggests that because users are entering a period of "technology churn" corporate users are more inclined to turn to outside service providers rather than risk investment in rapidly changing technology.

"Customers have been looking very closely at what they want to provide and manage," he says. "For some it will remain economic for them to continue to operate their own networks." But for a substantial proportion he believes Centrex, VPN or full outsourcing will make sense.

Both Mercury and BT have invested heavily in recent years in providing both national and global VPN services. Mercury, in conjunction with its parent, Cable & Wireless, and partners such as US Sprint, provides an end-to-end service under the GVPN banner and BT provides a global service called International FeatureNet service which was launched in 1990 and offers on-network connections to the US VPNs and off-network connections to a number of other countries.

In Britain, BT's VPN service is called FeatureNet 5000. One of its latest customers is Saga, the UK-based international travel and financial services group. Saga's new system includes a VPN and an automatic call distribution (ACD) system providing digital switching technology to handle domestic dial-up calls and most of the voice and data traffic that would normally require dedicated leased lines.

Saga can increase or reduce call capacity at two hours' notice, for example to accommodate extra traffic generated by marketing activity.

Meanwhile, Mercury is actively pursuing outsourcing business. Early last year it won two big contracts, one from TSB and the other from GEC and, according to Mr Sexton, its negotiating several others at the moment.

Paul Taylor

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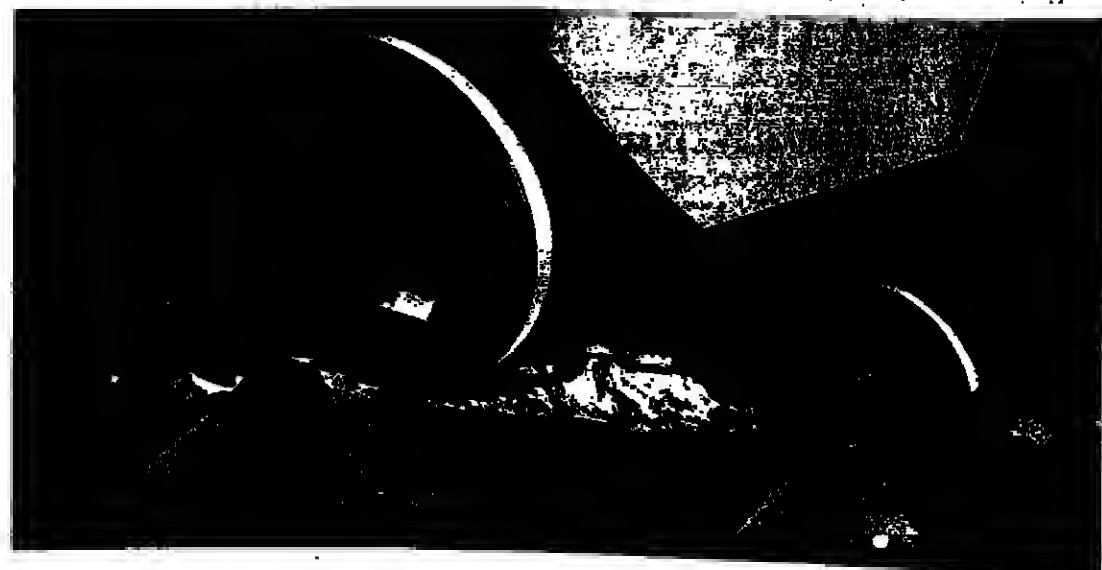
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## TELECOMMUNICATIONS IN BUSINESS 7

## DISCOUNT SCHEMES

## Teams of experts ponder the options

One of the many criticisms that UK businesses used to make of telecommunications services in the UK was that the price of a call was the same regardless of whether you were a residential customer running up bills of £50 a quarter, or a multinational corporation generating millions of pounds a year of revenues for BT.

This is no longer the case. Since 1991, BT and Mercury have been offering a sliding scale of discounted telecommunications services, and large users have been buying telephone calls for as much as 20 per cent less than the infrequent caller.

But the introduction of discounts has brought with it a new problem: deciding which discount scheme is best, and predicting in advance the level of spend on telecommunications services over a period of three months.

Even when it is clear which of the packages offered by one operator is best, it can be difficult to compare discount schemes offered by BT on one hand, Mercury on the other, and increasingly, cable television companies and other competitors.

Large companies have telecommunications managers and teams of experts who can work their way through the different options and decide what mix of services suits them best.

But the small and medium-sized business, where telephone services have only ever merited the same care and consideration as gas, electricity or water supply, often lack the expertise and resources to make the right choice.

Those companies which make the wrong choice, or make no choice at all, may lose the opportunity to make savings on one of their biggest items of expenditure and one which will rise as we move towards an information-based society.

BT introduced the first bulk discounts in 1991. Mercury, which was offering discounts of between 10 per cent and 25 per cent on all

long-distance and international routes, was stealing some of BT's biggest accounts and the former monopoly needed a defence.

BT's discounts apply on a site-by-site, or a multi-site basis. A company which houses all its operations under one roof would choose a site-by-site discount scheme. But for businesses with many different sites dotted around the country each generating a small amount of traffic - for example a chain of shops - a multi-site scheme could prove more attractive.

The site-by-site discount packages are called Option 15, Option 45, Option 50 and Option 70. For quarterly payments ranging from £340 to £275, users qualify for discounts on BT's basic call charges of between 10 per cent and 16 per cent. Residential and small business users usually opt for Option 15 or

Option 45 because their quarterly spend is not high enough to make it worth their while paying the high up-front cost to qualify for maximum discounts.

Option 2000 is BT's multi-site discount package. With this tariff option there are discounts on total

call charges generated by several sites. The same principle applies as with the other Options packages: users qualifying for discounts of between 14 per cent and 16 per cent in return for up-front quarterly payments of between 14 per cent and 16 per cent.

For every BT Option, Mercury has a discount scheme of its own.

For Options 15, 40, 50 and 70, read Frequent Caller Programme Levels One, Two, Three and Four, all of which offer higher discounts on basic Mercury prices the greater the quarterly payment.

Mercury has a set of discounts for its directly connected customers on the one hand, and indirectly connected customers on the other. As a rule, large users are connected directly - they have Mercury lines running into and out of their premises - and small to medium-sized companies take indirect services in which case they are connected by BT lines as far as the local exchange, but connect to Mercury for long-distance and international calls.

For directly-connected sites, Mercury offers discounts averaging 5.7

per cent to 8.8 per cent in return for quarterly fees of between £300 and £700. Indirectly connected customers get discounts of 11.5 per cent to 17.4 per cent for national calls, and 18.3 per cent to 20.9 per cent for international calls after paying site fees of £5 to £450.

Mercury has another discount package called its Corporate Plan which is for multi-site businesses and to compete with BT's Option 2000.

Deciding which combination of discount packages is right for your business is not easy.

A niche has been created for independent consultants to provide expert advice, and there is increased demand for reports such as the *Octagon Guide to Telecommunications Tariffs* and the *Guide to BT and Mercury Business Telephony Tariffs* published by Infra-

structure, Technology and Communications (ITC), a London-based consultancy.

The Octagon guide concludes that Mercury 2100 - its directly connected service - is the cheapest telephone service. "Mercury savings over BT," it says, "are up to 9 per cent, after taking account of the best BT or Mercury options, rental charges and option charges."

ITC's key findings are that Mercury savings for single sites are between 5 per cent and 15 per cent for directly-connected sites, and up to 10 per cent for indirectly-connected sites. On a multi-site basis, Mercury savings to BT range from 5 per cent to 10 per cent.

Medium to large businesses, however, will often require a mixture of BT and Mercury services and of single-site and multi-site discount packages. The savings on basic call charges for a company that mixes and matches different discount schemes is substantial.

Prudent management of telephone services is fast developing as an effective means of cost control.

Mark Newman

## New entrants beside Mercury

## Competition is slow

There has been a lot of bluffing and puffing since the government lifted the remaining restrictions on competition to BT and Mercury in 1991. But few of the new telephone companies that announced plans around that time to build new telephone networks are close to delivering a service.

British Rail Telecommunications, British Waterways and National Networks - the start-up company which was going to use the Post Office's internal network - all came up with plans to build networks that would connect the main UK centres of population. But none are laying down telephone lines yet.

Meanwhile, US telephone companies Sprint and American Telephone and Telegraph are beating their drums loudly but have no intention of duplicating BT's, or even Mercury's, less extensive network.

In fairness, most of the applicants are still waiting for the government to process their licence applications. But even after licences have been granted and the operators have secured financial backing and started building their networks, most new telephone companies are

only ever likely to target a very small number of high-spending large business customers.

With BT, the cable television companies and Mercury Communications already poised for a two- or three-way fight for small to medium-sized business and residential customers - it will be a three-way fight if the cable television companies stop working in partnership with Mercury - it would be risky for any other company to embark on a multi-billion pound venture to cable up the whole of the country.

Most of the new competitors, therefore, are planning to build networks which rely heavily on the national infrastructures already in place courtesy of BT and Mercury.

A new breed of telephone companies called resellers are the clearest example of how it is possible to compete with BT and Mercury using their telephone network infrastructures.

Resellers lease private circuits on long-distance and international routes from BT and Mercury, and resell capacity on these routes to their customers.

A reseller can connect its customer to the BT or Mercury private

circuit either with another private circuit, or by the public telephone network. In either case, a reseller buys the service from BT or Mercury, repackages it, and sells it to its customers.

Worldcom, the UK subsidiary of a Swiss telecommunications group, is one of 15 or so companies which consider that the UK offers attractive opportunities for resale. But Worldcom is the only company which has firmly established itself as a reseller and signed up big corporate accounts.

Worldcom offers services to the US and other leading international destinations at lower prices than either BT or the cheaper Mercury Communications.

It has more than 100 customers already and is well placed to benefit from the liberalisation of resale services in Europe.

Today, the opportunity for resale

services in Europe are limited. But the European Commission intends to force member states to drop all restrictions on resale within the Community by 1996.

Other resellers are planning to enter the UK market over the next one to two years, all offering dis-

counts to BT and Mercury on main routes. Most of these are new companies which plan to exploit the huge discrepancies between the actual cost and the price that is charged to the customer for delivering international services. Others are public telephone operators such as Swedish Telecom and Telecom Australia which will offer interna-

tional services to UK subsidiaries of Swedish and Australian companies.

This is clearly the attraction for AT&T, the US telecommunications giant which applied in April for a licence to operate a domestic and international telephone network.

AT&T has not decided whether it will build a trunk network across the UK. To build a network from scratch would cost billions of pounds and it would take tens of years to recoup the initial investment. One option would be for AT&T to partner one or more of these new competitors whose projects are already far advanced.

One such project is the proposed trunk network to be built by Energis, a company wholly owned by the National Grid company which operates the trunk electricity network in England and Wales. Energis plans to open the UK's third trunk telephone network in spring 1994. It

will connect 17 of the largest towns and cities in England and Wales. Energis is investing £100m a year in the network over the next five years and would welcome a partner such as AT&T to share some of the investment burden. Energis received its licence from the DTI in May.

Energis will initially target business customers in city centres and offer them cheaper private circuit and public network services than BT or Mercury. It says it will make considerable savings on the construction costs of the network through the use of existing national grid infrastructure. It plans where possible to wrap optical fibre on overhead power lines as a cheap alternative to installing cable below ground - and it hopes to link its trunk network into local telephone networks that several regional electricity companies are planning to build.

The other project most likely to succeed involves the delivery of local telephone services by radio. Ionica is a start-up company which has developed the technology to deliver local telephone services to residential and small business cus-

tomers using radio tails and bypassing the BT local telephone network. Ionica reckons it can provide a service to half the UK population over the next few years at prices considerably lower than BT or Mercury.

Today, the only real alternative to BT and Mercury for most business customers are the services delivered by the cable television companies. The cable operators' franchise areas cover 14.9m households and businesses, although most of these are still in the planning or network building phase. Nevertheless, they have already installed more than 150,000 telephone lines and more than 20 per cent of the BT customers they approach are signing up.

Cable television operators are mainly targeting small business and residential customers, offering them prices some 10 to 20 per cent cheaper than BT or Mercury. Many of them are offering new services such as call waiting or call forwarding.

Diamond Cable, the cable television operator in Nottingham, has introduced free local calls if they are made between cable television network subscribers.

Mark Newman

## QUALITY OF SERVICE

## Blunt message from survey

PRICE is not everything. Companies want a reliable telecom service and if new entrants to the market will not provide it, business will not go their way.

That is the blunt message of a detailed survey of user perceptions of the UK's public network operators carried out at the end of last year by the Telecommunications Users Association which represents 1,100 companies nationwide spending at least £500m a year on telecoms between them.

The survey, of 1,000 companies, analysed the service provided by BT, Mercury and a few smaller providers.

Overall, satisfaction levels were high. BT generally scored better than Mercury, but there was little in it and on most measures of service quality more than two-thirds of users professed themselves "very" or "fairly" satisfied.

However, there were still some serious gripes. BT users were particularly concerned about:

● Billing. Concern was not so much about accuracy as frequency, layout and content.

A recurring theme was the difficulty of calculating prices and comparing tariffs with ever-more-complex discount schemes.

BT has recently made improvements to the last two, but complaints about frequency from smaller users, and the timing of reminders and threatened disconnections for all, are likely to persist.

BT says it has no "set rule" on the availability of monthly billing. Larger companies qualify; whether small and medium-sized ones do depends, according to a spokesman, "on their size relative to others in their area". In London that means they "probably have to have a bill of several hundreds of thousands a year" - although a trial of monthly billing for all companies is underway in one area.

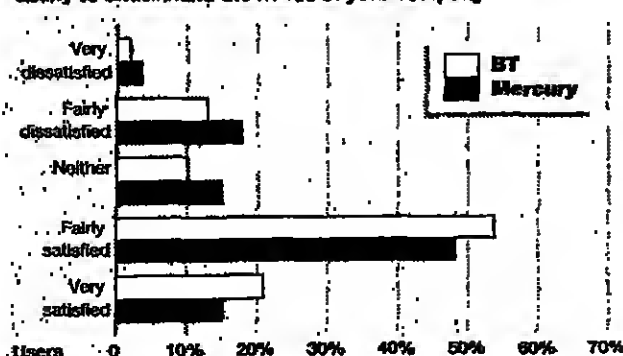
As for reminders, the standard intervals are three weeks to a reminder, followed by second reminder and final notice. "However, precise intervals depend upon payment history," says the company. "Good payers generally get greater leeway."

● The frequency with which account managers were changed, and poor handover. Some customers complained of having two or three account managers within 16 months.

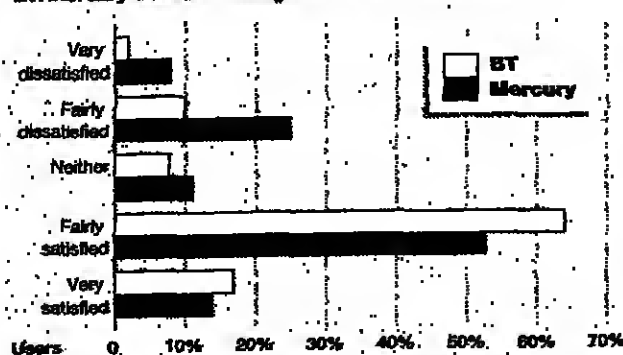
● BT's heavy redundancy programme over the past three years which, says the TUA, "has resulted in many customers feeling uncertain about BT's future ability to deliver" account.

## Customer satisfaction

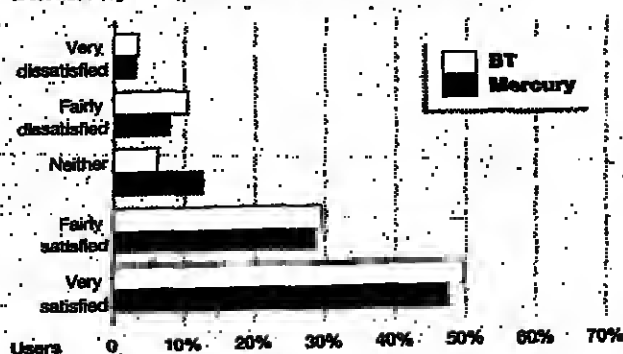
Satisfaction with your BT/Mercury account manager's ability to understand the needs of your company



Level of satisfaction with the technical expertise of the BT/Mercury account managers



Level of satisfaction with the technical expertise of BT/Mercury staff



Source: Telecommunications Users Association

Some "major customer problems" were reported. Despite this, the report continues: "A majority still felt that BT was grossly over-staffed" - so evidently the company cannot win.

● Information about tariff options. A recurring theme was the difficulty of calculating prices and comparing tariffs between operators, with ever-more-complex discount schemes. As competition intensifies, no improvement is to be expected on this score. Least cost-routing software and smart boxes can do the thinking for you when it comes to selecting operators for particular calls, but the latter have created problems of their own and some new users require large initial payments that also need to be taken into account.

● Billing. Concern was not so much about accuracy as frequency, layout and content.

With Mercury, the main complaints were:

● Network congestion, particularly in the Manchester, Birmingham and East Anglia regions "and a general lack of responsiveness".

Half of all respondents reported one or more recurring faults with Mercury, often as a result of network congestion or failure.

Mercury says that since last autumn it has completed new switches, upgraded existing ones, and improved interconnect arrangements with BT to relieve congestion in all three areas, "so there are no longer such traffic jams".

● Billing, with "bills for large amounts being sent sporadically" and inadequate machinery and dealing with complaints. Mercury says it is "examining" a new billing sys-

tem, but has yet to make an announcement.

● "An overall feeling that London Mercury was thin on the ground and simply lacked the necessary resources." The company, which began life targeting City business traffic, still has work to do assuring out-of-London customers that they receive equal treatment.

It is too soon to pass judgment on the service provided by the 58 cable TV companies laying networks in the local loop. Indeed, most of the complaints against them have not been about the service provided, but rather the absence of any cables providing service in the first place. BT's Westminster contract area is a prime source of complaints, although BT recently promised to take the contract seriously and make the outlay required to fulfil its licence.

However, one new entrant wins plaudits from the TUA: Worldcom, a fast-growing London operator linking private networks into leased national and international leased lines, which has applied for a public telecommunications operator licence to enable it to offer services via the switched network.

Worldcom branched out from the leased line business barely 18 months ago, yet now has 80 customers and has only lost one since - and that was not to do with quality. Claiming to charge up to 15 per cent less than Mercury, it is no wonder that the City is discovering it fast.

Mr David Hardwick, Worldcom's managing director, says its ability to maintain quality is no surprise. "After all, our equipment is the same as that used by BT and Mercury - and virtually all our staff come from one or the other." Including Mr Hardwick himself, who left BT four years ago.

Unsurprisingly, the TUA members are keen to see greater competition. Only 31 per cent thought there was "adequate" competition. The rest wanted to see more, in three areas in particular: the provision of analogue private circuits; in local calls (where BT still has a virtual monopoly - and will continue to overmuch of the country even when and if the local cable companies start attracting customers en masse); and in geographical areas where Mercury is weak.

"An overriding majority of the users outside the Greater London area felt there was no real alternative to BT", conclude the TUA. As one user put it: "The problem is, who will want to service the rural or unglamorous areas?" Who indeed.

Andrew Adonis

## Syncordia and the emergence of global supercarriers

## Latching on to demand

"OUTSOURCING" is now all the rage among international telecoms companies. Most state telecoms companies are in or entering the business of providing a "one-stop shop" for companies, servicing and managing as much of their telecoms needs as they are prepared to put out of house.

In the UK, both Mercury and BT have managed services divisions. Last month, BT named its domestic outsourcing unit "Communications Management", targeted at companies with large and complex private networks on the day it announced a £5m five-year contract to take over the ownership and management of Thorn EMI's internal UK telephone network.

However, BT's outsourcing strategy does not stop at the Channel: one of its over-riding ambitions is to become a leading "global outsourcer". It faces stiff competition for the title from American Telephone & Telegraph, the largest US operator.

BT and AT&T have latched on to a demand - part evident, part anticipated - from the world's 2,500-odd multinational firms for a "one stop" global provider able to do everything from maintaining private networks to sorting out customer requirements with local telecoms companies in several countries while providing single billing and a single telecoms point of call.

Add into the equation the capacity of the international telecoms operator to provide the latest in network features, billing, servicing and high-speed data transmission facilities, and that makes your global outsourcer.

As Mr Vic Pelson, president of AT&T's communications services group, puts it: "Multinationals want communications services that give them global capabilities. And they want them now."

There is nothing new in partnerships between telecoms companies to provide international services. So-called "correspondent" arrangements to inter-connect virtual private networks across borders, and to provide services such as abbreviated direct dialling and single billing for traffic carried between two operators, have been in place for years.

AT&T's Global Software Defined Network (GSDN) gives it a correspondent link with 21 other international carriers, including BT, BT's counterpart, FeatureNet, embraces 14 carriers and has more than 100 customers.

However, the latest outsourcing ventures by the two companies - AT&T's Worldsource launched last month and BT's Syncordia, started in 1991 - are far more ambitious. Designed both to enhance the range and

quality of existing services, their aim is to provide a truly one-stop international facility for multinationals.

Initial Worldsource services, available later this year, will include virtual network services for voice and data communications, upgraded private-line services, frame relay service for high-speed data transmission and "one-stop shopping" for ordering, maintenance and billing, with bills consolidated in a customer's choice of country and currency.

Although AT&T and BT are marketing similar services, and both are investing heavily in upgrading overseas facilities, the strategies of Syncordia and Worldsource are starkly at odds. Syncordia, based in Atlanta, Georgia, was originally intended to be a strategic partnership with Germany's Deutsche Telekom and Japan's Nippon Telegraph and Telephone. But neither proposed link-up came off, with Deutsche Telekom breaking away and forming a rival enterprise with France Telecom.

Syncordia will in due course be subsumed in a new \$1bn joint venture formed with MCI, the second-largest US carrier. The deal with MCI marks the end of BT's "go-it-alone" approach, and its attempt - presently before the Federal Communications Commission - to become a public operator in the US in its own right is expected to be quietly dropped. AT&T, on the other hand, intends vigorously to pursue its application for direct access to the UK public networks.

Syncordia now has nine takers worth \$200m a year. These include a five-year contract managing BP's voice, data, video and messaging services among five sites in the UK and Stavanger, Norway, and the communications network of BP Chemicals among 11 sites in seven European countries.

It is hardly taking the international telecoms world by storm - but then, says BT, "multinationals cannot be expected to outsource overnight."

By contrast, AT&T's Worldsource was launched in Japan with two partners (Kokusai Denhin Denwa of Japan and Singapore Telecom) and the strong likelihood of three others joining soon (Unitel of Canada, Telsira of Australia and Korea Telecom).

An entry into Europe is critical if Worldsource is to succeed. AT&T is budgeting to spend \$350m over the next five years providing facilities and upgrading equipment in Europe. Mr John Foster, director of AT&T's communications services in Europe, professes himself keen to talk to "almost any" of Europe's telecoms

operators about a link-up, and expects to launch Worldsource in Europe next year.

Because Worldsource does not give AT&T exclusive rights over its partners, most of Europe's state telecoms operators appear to have little to lose from participation. Unless, that is, they want to be global outsourcers themselves, and are anxious to give no succour to AT&T.

For companies such as Deutsche Telekom and Telecom France, AT&T's move is a challenge to them to clarify their international strategies and link up with partners. BT has already shown its hand, which could give the US operator problems in the UK. But AT&T is not restricted to BT, Mercury and Energis are potential partners.

Andrew Adonis

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## TELECOMMUNICATIONS IN BUSINESS 8

Value-added services: The fax market

## Falling prices attract new users

Today, the fax machine is as much a part of office life as the old Remington typewriter once was. Prices have fallen fast and models are available for less than £400. This is starting to attract new users who want a machine at home either because they do some of their work there, or because it is a cheaper and more convenient way of communicating with relatives overseas.

The Swedish paper and pulp association estimates that fax machines will multiply from 5m worldwide in 1989 to nearly 18m this year and will reach 27m by 1995. A survey published in April by market researchers Gallup and Pitney Bowes Facsimile Systems shows that fax traffic is increasing at an astonishing rate in the UK - a rise of 133 per cent in the number of faxes sent and a 38 per cent rise in the number of documents received by respondents.

Meredith Fischer of Pitney Bowes says: "At these volumes, companies should be taking control of their fax networks and forming specific policies." She believes there are huge sums to be saved.

Companies can save money by:

- Using plain paper fax machines. These cut costs because they don't require expensive thermal paper. Plain paper is almost half the price - about 1.6 pence a sheet compared with three pence for thermal. In addition, plain paper faxes don't need to be

photocopied because they don't fade. Fischer estimates that it costs 60 pence to copy each document including secretarial time and paper.

Plain paper fax machines do cost more to buy - anything between £1,000 and £5,000. But the potential benefits are encouraging a lot of companies to trade up. According to the British Facsimile Industry Consultative Committee (BFICC), about half the fax machines sold in the UK are replacement machines and most of these are plain paper faxes.

There are two kinds of plain paper fax. Those which use ink-jet technology (this gives near-laser-quality output) starting at £1,000 and those which use laser-light-emitting diode (LED) technology starting at £1,500. The main players in the ink-jet market are Canon and Panasonic. But most other suppliers, including Sharp, Panasonic, NEC, Canon Matsushita, Ricoh and Toshiba, sell laser or LED plain-paper machines. The market is very competitive and prices are likely to fall further.

● Buying faster machines. Facsimile machines with transmission speeds of up to 14.4 kilobits per second (kbps) are available from £1,500. They can



The BBC employs an Xerox 7033 fax server in its news department. CCITT standard (MMR) for compressing data, which takes away all redundant information.

● Using advanced features. Top-of-the-range fax machines offer a lot of advanced features, many of which can help to cut costs. For example, some machines have the ability to send non-urgent faxes overnight. Of these, a number allow batch transmission of overnight faxes. They group together all faxes going to the

example, NEC, the Japanese electronics company and fax supplier, sends fax data over its worldwide data network.

There is no incremental cost for doing this because the network is already in existence.

According to Mr Lester Davis, chairman of BFICC and product manager for telecomm products at NEC: "One problem in this area is the lack of standards for converting fax signals from analogue to digital. However, the CCITT recently ratified a version of the Group 3 standard - Group 3 bis - which will work over the Integrated Services Digital Network (ISDN)."

Fax machines which support Group 3 bis should start to appear next year. They will be able to send data to similar machines at 64 kilobits a second, cutting transmission costs, or transmit to standard Group 3 faxes at lower speeds.

● Routing fax traffic to data lines. Faxes normally send information in analogue form (like the human voice). But it is possible to convert Group 3 fax data into a digital format which can then be sent over the company data network. For

same number and send them at the same time.

This can cut costs substantially because the "handshake" part of the call, in which a fax machine identifies itself to another, only needs to be carried out once.

● Cutting down on queuing. Many highly-paid executives waste valuable time hanging around at the fax machine waiting to send messages. Mercury has estimated that sending an average of 6,000 faxes a week will cost a company more than £100,000 a year in staff time alone.

Waiting time can be reduced in a number of ways, for example by giving users low-cost desk-top fax machines or by subscribing to third-party services such as BT's Faxefax or Mercury's Surefax, which re-send faxes or fax many destinations for users.

Some high-end fax machines also allow users to scan a document into memory, type in the recipient's fax number, and then leave the machine to do the rest.

Another way of reducing the fax queue is to equip stand-alone personal computers (PCs) or PC networks with technology which enables them to send documents straight into the fax network.

For example, the BBC's news and current affairs department has installed a Xerox Lan-Fax Express 21 (a combination of hardware and software) to connect all 20 of the department's PC network users to a single fax machine. This enables them to create, send, receive and view faxes without having to leave their desks.

There are a host of products for computer-fax ranging from plug-in fax cards (which can be cheaper than fax machines), to fax modems and servers. Some can be used to centralise management of faxes and improve cost control.

For example, Comwave's centralised fax switch will help Lloyds Insurance and reinsurer broker C T Bowring cut fax costs by £500,000 over five years.

Of course, the fax is not always viewed as an overhead. At "white goods" supplier See-

board, field service engineers have been given NEC briefcase faxes (which plug into portable phones) so that they can order spare parts in front of the customer or get call-out details without going into the office. The company expects increased levels of efficiency and customer satisfaction.

Home users, too, are unlikely to face large fax bills. Their problem may be too few faxes rather than too many.

Mr Davis says the industry is working on standards which will simplify the use of data-base services for domestic fax users. Before long they could be using their Amstrad faxes to call up information from shopping catalogues or book holidays.

One day the home fax could be as much a part of everyday life as the electric toaster.

Joia Shillingford

## Vsat services

## VW revives fortunes

GERMAN car manufacturer Volkswagen has revived the fortunes of a satellite-based business communications technology which was in danger of being suffocated by regulatory obstacles before it had even made its mark in Europe.

Volkswagen has awarded a contract to Scientific Atlanta of the US to install the largest internal satellite communications network in Europe. It will eventually connect 6,000 Volkswagen dealers in different countries and is to be used for data communications and business television services.

Signals will be received and transmitted via very small aperture terminals (Vsats) dishes developed in the US that are only a fraction of the size and price of the conventional satellite dish.

Vsat networks the same size as Volkswagen are commonplace in the US, but in Europe Vsats have been slow to take off. Previously, the largest two-way contract in Europe was a 150-terminal network run by the Italian government's department of social security.

There are a number of reasons why Vsats have failed to make their mark in Europe.

First, the services that can be transmitted by Vsat can also be delivered by terrestrial data communications networks. State-owned telephone operators across Europe control this business because they supply the private circuits which companies need to build their own private data communications networks. They also operate public data networks.

The public operators have been reluctant to unlock the potential of Vsats which are identified with small private service providers who could even threaten their own businesses.

The development of Vsat services has largely been driven by private companies. But they have found the way blocked by the PTTs (post, telegraph and telephone companies) who control the sale of satellite capacity - Europe's telephone operators jointly own Eutelsat, the European satellite organisation - and who can resort to a number of tactics to hinder and delay the deployment of networks.

The biggest potential for Vsats lies in the installation of pan-European networks for companies with offices in several different countries.

It can be technically difficult and immensely time-consuming to piece together a pan-European network using leased lines, as a satellite network, which can be installed in a matter of weeks, provides an attractive alternative.

Volkswagen went for a Vsat network because it met the German company's requirement better than terrestrial links, according to Mr Klaus Schultz, Volkswagen's director of communications systems.

Availability of leased lines in Europe is poor, he says, and Vsats also give greater flexibility. The company will use Vsats to send information to its dealers and also plans a business television service in the future.

Three other leading European car manufacturers have also been pioneers in the deployment of Vsat networks. Renault of France has a two-way data communications Vsat network for its 140 dealers in eastern Germany.

The network was installed by Teletop Europe, the leading supplier of Vsat systems in Europe. Daimler Benz has linked 20 of its European subsidiaries on a Vsat network supplied by Deutsche Telekom. And last year, BT won a contract from Ford's UK arm to install a one-way Vsat-based television network for several hundred UK dealers.

Car companies are particularly suited to Vsat satellite systems because they have a

requirement for point-to-multipoint communications. Their central offices need to send and receive data from many outlying sites where their dealers are based.

Campsa, the Spanish chain of petrol stations, is using a Vsat network to route information from its main offices to petrol stations up and down the country. Campsa had to buy Spain's semi-state-owned telephone operator Telefonica into installing its network. Telefonica is one of the public operators which have largely ignored the arrival of Vsat systems.

But the success of Vsats in the car industry has not been mirrored in other sectors.

While the unfavourable regulatory environment and the hostility of the public telephone operators have been crucial factors in the slow take-up for Vsats, there has also been a problem persuading businesses that Vsats provide a reliable and cost-effective alternative to terrestrial networks.

"Service providers are affected by the image of the sector as immature, unstable, risky and under-resourced," according to report published by the Cambridge-based telecommunications consultancy Analysys earlier this year. It says this perception will change in coming years, but for the moment, "No service

Many of the service providers are names new to telecoms managers

provider has yet had time to establish a track record that could completely reassure the average corporate telecommunications manager."

Many of the service providers are names new to corporate telecommunications managers.

Teleport Europe was set up in 1990 specifically to offer Vsat services, while Scientific Atlanta is an established service provider in the US, but has only started to make an impression in Europe in the past year.

Pricing Vsat services has been another problem. Few customers will switch from terrestrial solutions to satellite solutions unless there is a cost saving.

Service providers are undercutting public telephone operators for large Vsat networks, but offer only small price savings for smaller systems.

Volkswagen, therefore, was able to achieve a lower price than if it had opted for a terrestrial network. But this will be the first two-way network with more than 1,000 terminals and most networks only have about 50 terminals.

Analysys believes that service providers will have to drop their prices for these smaller networks if they are to develop their businesses.

There has always been an expectation that Vsat services will make the same impact in Europe as in the US where leading corporations such as General Motors, Chevron and Chrysler have Vsat networks covering thousands of sites. There are well over 100,000 one-way and two-way Vsat terminals installed in the US, compared to less than 10,000 in Europe.

But several industry players now say that comparisons are invalid. In the US, the retailing, distribution and financial sectors have been the big sectors for Vsats.

Analysys notes that "the geographical spread of these services in Europe is much more restricted." There are, for example, no European equivalents of nationwide US retailers such as K-Mart.

Patterns of use may, therefore, develop very differently in Europe, according to Analysys.

Mark Newman

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